Rationalisation of housing association stock
A guide and toolkit
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Foreword

For many housing associations, the pattern of their stock holdings enables them to engage with communities properly and deliver high quality services to residents efficiently. But for others, it is clearly incoherent and, at worst, can hinder neighbourhood management and effective regeneration.

Our stock rationalisation project has looked at rationalisation activity, particularly in the areas of the Commissions in Manchester and South Hampshire, identifying good practice as well as the barriers to rationalisation.

The rationalisation National Steering Group fully endorsed the recommendations of the Commissions, and these are set out in the Chartered Institute of Housing’s Policy and Practice Report. A number of recommendations are made for a range of stakeholders, including the Corporation. For our part, we have already taken on board the recommendations made and would encourage other stakeholders to do the same.

In particular, we are consulting on the development of the fourth investment traffic light used in our Housing Corporation Assessments. We want to take a holistic approach in considering associations’ plans for new investment, re-investment and disinvestment in their stock, including their approach to stock rationalisation. We believe that an explicit approach to rationalisation should be an integral part of all asset management strategies.

A wide range of people and organisations contributed to this project and I’d like to offer particular thanks to Mike Gahagan and Professor Peter Roberts, the Chairs of the Commissions, as well as to the Chartered Institute of Housing.

We recognise that stock rationalisation can be extremely challenging and that barriers remain, however this guide and toolkit will help associations, and others, through this process.

Peter Dixon
Chairman
How to use this guide and toolkit

This guide and toolkit has been prepared for the Housing Corporation (HC) as part of the work commissioned from the Chartered Institute of Housing (CIH) on the rationalisation of housing association stock in England. It accompanies the reports which set out the policy background and accompanying information, all of which are available on the CIH website.

This guide and toolkit is intended to assist practitioners who are considering the strategic, policy and service delivery issues of rationalising their stock holdings through transfer, disposal, leasing or management agreements. It also briefly addresses local measures such as policy harmonisation and joint purchasing/joint contracting.

The intended audience for this guide and toolkit is principally board members and managers within traditional housing associations with dispersed rented social housing stock. Stock transfer associations (LSVTs) are less likely to transfer stock to other housing associations because on the whole they manage concentrated stock; they may however want to receive stock. The management of low cost home ownership (LCHO) schemes and other types of housing are touched on briefly.

Different readers will have different interests. To accommodate this the guide is structured into sections for each of the members of an association’s team who will be employed in stock rationalisation, namely:

- boards and senior managers;
- operational staff engaged in transfers and disposals;
- valuers;
- funders and treasury managers;
- lawyers and company secretaries;
- accountants;
- tenant involvement staff;
- LCHO specialists; and
- general managers.
Introduction

This guide and toolkit is intended to assist housing associations that are considering rationalisation of their housing stock. It explores the circumstances under which rationalisation may be appropriate, the various forms it may take and provides detailed guidance on the issues that need to be taken into account when implementing a rationalisation programme, including valuation, legal and accountancy matters.

The guide and toolkit is part of a larger project initiated by the Housing Corporation on housing association stock rationalisation, which involved the setting up of two independent commissions, whose work was overseen by a National Steering Group. The aims of the project were to:

- produce a report and any associated guide and toolkits for publication, which can be used by housing associations and local authorities to facilitate stock rationalisation.

The project, as well as the guide and toolkit, considers rationalisation in the context of changes in the pattern of management or ownership of housing association stock and looks at the following types of rationalisation:

Changing property ownership:

- stock swaps between associations;
- transfers between associations; and
- disposals on the open market.

Retaining ownership but changing management arrangements:

- management agreements; and
- leases.

Partnership working, such as policy harmonisation and joint maintenance contracts, are also considered briefly.
Background

This section sets out the background to the rationalisation of housing stock from the national, regional, local and neighbourhood perspectives. In particular, it outlines the work of the Commissions and the National Steering Group as well as summarising their reports and recommendations.

The context

The report Sustainable Communities: Homes for All, published in January 2005 by the former Office of the Deputy Prime Minister, signalled government’s intention to explore the options for improving the management of homes in an area, including areas where a number of landlords operate. This intention is consistent with the National Housing Federation’s iN Business agenda under which housing associations are expected to play a full role in the management of neighbourhoods. Homes for All also set out the efficiency gains that government sought in housing management and maintenance services from the social housing sector.

In October 2002, the Housing Corporation issued a discussion paper\(^1\) on rationalisation and restructuring in light of the increased emphasis on efficiency and a continuing focus on neighbourhood/community engagement and quality of tenant services. In 2005, the Corporation wanted to return to this issue and therefore established two independent rationalisation commissions — one in Manchester and one in South Hampshire — together with a National Steering Group to oversee their work. The Corporation was not seeking, through the Commissions, to impose rationalisation solutions but rather was aiming to gain an independent perspective on the issues from two differing local contexts.

The Commissions were responsible for investigating and considering the evidence on national and local issues which impact on the rationalisation of housing association housing stock. They sought to understand the drivers for rationalisation, the barriers that may impede progress and the action that should be taken by associations, local authorities, the Housing Corporation and other agencies to promote rationalisation where clear benefits could be demonstrated.

The reports of both Commissions\(^2\) were published in July 2006 and are available on the Chartered Institute of Housing’s website: www.cih.org/stockrationalisation
Findings and recommendations of the Commissions

The findings of the Commissions have been compiled into a policy and practice report by the CIH\(^3\). It concludes that:

‘...the key factor in determining whether or not rationalisation activity should be actively considered is engagement — particularly in the context of area regeneration and neighbourhood management. Engagement should be with a variety of players, chiefly the local authority/parish councils, local stock owning associations and the local communities (in particular tenants and residents) in which stock is owned. It should also be undertaken with a view to delivering the local authority’s strategic objectives and solutions to particular local problems.’

The CIH’s general recommendation is that:

‘...all housing associations should explore the scope for undertaking all forms of rationalisation as part of their asset management strategy — focusing in particular on community engagement, service delivery and neighbourhood regeneration — and based on a robust cost/benefit analysis of the options available.’

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The report goes on to make a number of key recommendations for housing associations:

‘All housing associations should seek to engage with the communities and neighbourhoods in which they own and manage housing.’

‘All housing associations should explore the potential opportunities for rationalisation within their organisation. This exercise should form part of the association’s asset management strategy, should explore all forms of rationalisation and should be conducted on the basis of best practice — particularly in relation to consultation with tenants/residents. Where it can be shown that dispersed/remote stock or stock on a multi-landlord estate could be managed better (to a higher standard, on the basis of more community engagement or commitment to neighbourhood regeneration or more cost effectively) by another landlord then there should be a presumption in favour of rationalisation.’

‘In areas that have been identified by the relevant local authority as being a priority for rationalisation associations should work in partnership with the local authority, the Housing Corporation and with other association partners to agree and implement a rationalisation strategy.’

‘All housing associations should ensure that any decision they take to rationalise their own stock ownership/management should result in a more, rather than less, ‘rational’ outcome from the perspective of the tenants concerned.’

Key recommendations for all stakeholders, including the Housing Corporation, the Audit Commission and Communities and Local Government (CLG) are also set out in the report.

Drivers for rationalisation
Both Commissions received evidence about why housing associations carry out rationalisation of their stock. A variety of drivers were apparent:

Cost efficiencies
The Gershon report and the efficiency agenda have meant greater attention to this area of work. Factors found to be relevant included high travelling costs and the cost of repairs.

Ability to contribute to neighbourhood regeneration
Landlords find contributing effectively to neighbourhood renewal challenging where there are multi-landlord estates or pepper-potted ownership of stock in regeneration areas.

Ability to provide an improved customer service
Where stock is some distance from a local office it can be difficult to deliver a responsive customer service.

Ability to deliver neighbourhood management
Lack of a concentration of stock means that the landlord cannot engage with communities and make a full contribution to neighbourhood management.

The outcome of merger activity
Mergers and the development of strategic alliances have been the drivers for some rationalisation of stock within group structures. Given the current increase in the number of mergers this might be expected to be an increasing area of activity.


Barriers to rationalisation
Both Commissions concluded that there were a number of significant barriers to rationalisation. These included:

A lack of pressure in the system
There was little regulatory pressure, fragmented policies, sometimes a lack of strategic lead from local authorities and, historically at least, a perverse incentive to retain stock in a number of areas in order to maximise the chance of future development funding.

Significant transaction barriers
These included the high cost of surveys, valuations and conveyancing and the management time to carry out the necessary work.

Technical barriers
These included difficulties in reaching agreement over valuations, the loss of contributions to overheads and borrowing capacity for the transferring associations and, where management agreements were used, the necessity to pay VAT on the management fee.

Poor evidence of benefits
It does not necessarily follow that remotely-managed stock is poorly managed and that, even where there is evidence of service difficulties or high management costs, the scale of transaction costs can outweigh the benefits that would result.

The scope for rationalisation in the future
In spite of the barriers, the Commissions believed that there was scope for further rationalisation. The South Hampshire Commission felt that this was based on a number of factors, including:

- the significant number of associations owning a very small number/proportion of stock in the Commission’s area;
- in some areas the large number of associations with stock;
- the view of local authorities that further rationalisation would improve service delivery and local engagement;
- the continued pressure to deliver year-on-year efficiency savings; and
- the continued move towards mergers/groups.

The Manchester Commission concluded that rationalisation might contribute to key policy aims, particularly:

- better services to tenants and residents of the wider estate or neighbourhood;
- working with partners to optimise the delivery of better neighbourhood management;
- contributing to wider regeneration initiatives; and
- greater cost efficiencies.

The Commission saw rationalisation as more than a bureaucratic ‘tidying up’ exercise. If rationalisation does not contribute to some or all of these aims then there is no rationale for undertaking it, particularly as there are costs as well as benefits attached.

The new agenda
The drivers for rationalisation may be widened as government contemplates broader issues. Recent research on mixed income neighbourhoods suggests that deliberately changing the tenure mix on mono-tenure estates may advance regeneration. It may prove desirable to dispose of vacant stock on mono-tenure estates to the private sector and re-invest the proceeds in mixed locations elsewhere. Ironically this may promote dispersal, but at the same time pepper-potted stock on a mixed tenure estate will be better managed by one landlord.

The Hills report takes this theme further and emphasises:

- the importance of the existing housing stock to achieving the objectives of social housing; and
- the part that the rationalisation of stock can play as one of six approaches to achieving mixed income neighbourhoods.
The strategic context for rationalisation

This section summarises the key issues that housing association boards and senior managers need to consider before embarking on a rationalisation programme:

- triggers for consideration of rationalisation;
- rationalisation and the asset management strategy;
- rationalisation and regeneration strategies;
- rationalisation and business planning;
- rationalisation and other strategies; and
- choosing the most appropriate form of rationalisation.

Triggers for consideration of rationalisation

Both the Manchester and South Hampshire Commissions recommended that all housing associations should, as a matter of course, actively consider the need for rationalisation of their stock. Associations should also work with the local authorities in whose area they own/manage stock to agree appropriate levels and forms of neighbourhood engagement.

The context in which rationalisation is considered will vary. In some associations the need for rationalisation will first be discussed during the course of preparing the business plan, the asset management strategy or strategies for regeneration or renewal. In other associations the trigger may be a particular event or evidence of a problem — such as a series of complaints or survey of dissatisfaction in a particular location — which brings about discussion of whether ownership or management arrangements are optimal.

Whatever the context, associations will need to go through a series of steps to identify the opportunities and challenges they face and to evaluate the options that exist. Rationalisation may be an option but there may be other solutions to cost and service issues. If rationalisation is the preferred route, there are a number of forms it can take. Where transfer seems the best approach, the choice of the transferee and the scale and timing of the transfers will all need to be discussed.

Triggers for consideration of rationalisation may take a variety of forms — they may relate to management and maintenance costs, to the quality of services or to the ability of the association to respond to the needs of the neighbourhood in which its stock is located. Frequently, a combination of factors will be at work. Box 1 contains some questions that may help in decision-making.

Whatever the trigger for consideration of rationalisation, associations need to ensure that it is a key part of their strategic thinking. The natural home for the issue is the asset management strategy — which, in turn, feeds into the business plan.
### Box 1

**Questions that may trigger consideration of rationalisation**

<table>
<thead>
<tr>
<th>Question 1</th>
<th>Question 2</th>
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<tr>
<td>Does it cost significantly more to manage or maintain the association's dispersed stock compared with concentrated stock?</td>
<td>Does the association wish to concentrate its development, regeneration and service improvement activities in one or more neighbourhoods and transfer or dispose of other parts of its stock? (This would release resources that could be invested in its preferred neighbourhoods).</td>
</tr>
<tr>
<td>Is there evidence (either from surveys or from analysis of complaints or other sources) that tenants in dispersed stock are less satisfied than those in concentrated stock?</td>
<td>Is the association facing low demand for some of its stock and either there is evidence that another housing association would be more successful in letting the homes, perhaps because of its specialisms or closer links with particular communities, or it would assist market renewal to dispose?</td>
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<tr>
<td>Is dispersal or distance from management bases a barrier to service improvement? (Perhaps because staff cannot visit schemes as often as they should or a lack of critical mass means that new service initiatives are too costly).</td>
<td>Is the association a near-monopoly provider in an area and tenant choice and community diversity would be enhanced if other providers came into the area?</td>
</tr>
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<td>Does the association take longer to respond to local problems, such as anti-social behaviour, in its dispersed stock compared with its concentrated stock?</td>
<td>Does the association manage properties on mono-tenure estates where it would be desirable to change the tenure mix by selective disposals, releasing resources for acquisitions elsewhere?</td>
</tr>
<tr>
<td>Is the association unable to engage with the agendas of local authorities or other key agencies (regeneration, neighbourhood management, tackling homelessness or anti-social behaviour etc) in some of the areas in which it works because of lack of critical mass or because of the multiplicity of landlords?</td>
<td>Do differences in policy and practice create tenant dissatisfaction in areas where a number of housing associations operate?</td>
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Rationalisation and the asset management strategy

Asset management strategies should be framed to plan the association’s investment needs in order to:

• meet repair and improvement needs over a long period (up to 30 years), based on a stock condition survey;
• achieve the Decent Homes Standard by 2010;
• ensure that homes remain in demand; and
• ensure procurement of services to deliver high quality at least cost.

The Manchester Commission argued the need for asset management strategies to be extended beyond property-based issues to include questions of management costs and customer satisfaction.

The strategies should become the vehicle for bringing together a broad picture of the sustainability of the housing stock. This would enable associations to plan to achieve sustainable communities. Table 1 illustrates the type of data that will be needed to achieve this.

In order to broaden the scope of asset management strategies, the Commissions argued that associations should collect and analyse key data on tenant satisfaction and costs at a more local level.

Performance Indicator information is readily available at local authority district level through the Housing Corporation’s Performance Indicator website — www.housingpis.co.uk.

Many associations will also benchmark their performance by area. Where an association has stock that is spread across more than one local authority district and there are significant differences in performance, this should trigger questions about what may be the cause and solution. The rationality or otherwise of stock holdings should form a key part of this consideration.

<p>| Table 1 |
| Data needed for assessing the sustainability of the housing stock |</p>
<table>
<thead>
<tr>
<th>Sustainability factor</th>
<th>Source</th>
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<tr>
<td>Future demand</td>
<td>Demand surveys, demographic and market analysis</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>Customer satisfaction surveys, analysis of complaints</td>
</tr>
<tr>
<td>Operating costs</td>
<td>Accounting system</td>
</tr>
<tr>
<td>Response repairs costs</td>
<td>Asset management database</td>
</tr>
<tr>
<td>Stock investment costs</td>
<td>Stock condition survey and asset management database</td>
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</tbody>
</table>
Further disaggregation of the indicators and of cost and satisfaction data more generally to area/estate and scheme level should be pursued. Information that is generated from within the association itself, such as that concerned with management and maintenance costs and complaints, should be relatively easy to disaggregate. It may require changes to coding systems, computer software and reporting arrangements. Requirements for locally disaggregated data need to be specified when new IT systems are purchased.

Data that comes from surveys, particularly those that get a response from well under 100% of service users — such as a postal Status survey — will have limitations on how much disaggregation is possible. The size of sub-samples may be too small to ensure that any differences in results are statistically significant. Associations should, however, carry out area-based analysis of survey results as far as this is possible and supplement the results with other information, such as analyses of complaints.

Evidence of higher costs or lower levels of tenant satisfaction or other problems do not always mean that rationalisation is the appropriate solution. Many organisations find that costs, tenants’ satisfaction and the quality of engagement with communities and stakeholders vary across their areas of operation. These differences may stem from a variety of factors of which the degree of stock dispersal or distance from the management base may be only one. The variety of the housing stock in terms of age and form, resulting in differences in maintenance needs, variations in the needs and aspirations of service users and the variable quality within the managing team could also be explanations.

Box 2

Case Study: London and Quadrant Housing Trust

London and Quadrant Housing Trust, which works across London and the South East, has found that unit operating cost relates more to the condition of the home and the needs of the people living in it than it does geography. It therefore classifies its tenancies into five bands for unit management costs, which range from £170 pa to £1,700 pa. This enables it to drive out efficiencies by focusing on service delivery to tenancies that are more expensive to manage. One solution is to transfer property to a specialist landlord who can provide quality services to exceptionally vulnerable households more efficiently.
Rationalisation and regeneration strategies
Rationalisation can make an important contribution to asset management strategies in Housing Market Renewal areas and regeneration areas. In these ‘priority areas’ local authorities and their partners will consider the sustainability of the entire housing stock.

In order to manage market decline or to completely regenerate an area the partners will need to consider demolition and redevelopment to deliver a mixed tenure, mixed use outcome. Existing social housing can then be improved or replaced in a new spatial context.

In priority areas the partnership will commonly appoint a ‘lead’ association. Other associations with stock in these areas should co-operate with the regeneration strategy, transferring stock to other associations in return for payment or new stock elsewhere. There will be incentives from public investment or improvements in values achieved through redevelopment.

Rationalisation and business planning
Business planning may spur consideration of the need for rationalisation. Equally, rationalisation decisions will have effects on business plans.
Using business planning to consider the need for rationalisation
A central part of business planning is the compilation of global 30-year projections of income and expenditure, cash flows and a balance sheet at an association-wide level. Whilst this has provided a robust basis for raising private finance, deriving budgets and controlling the business it is not designed to identify the potential of rationalisation because:

• it generally assumes that stock will be sustainable for at least 30 years, unless regeneration or rationalisation is planned at the outset;
• it averages the range of positive and negative cash flows that may emerge from different areas, estates and schemes.

However it is possible to use business planning as a tool for rationalisation. Ideally, each area, estate and scheme should have its own business plan, pulling together 30-year projections of demand, rents, operating costs and stock investment costs. These projections would be aggregated to form the association-wide business plan.

Whilst at first sight this may seem unrealistic, this approach is in fact an extension of standard project appraisal techniques in which cash flows are used to arrive at the Net Present Value (NPV) of schemes being considered for investment. The approach also underpins the Existing Use Value for Social Housing (EUV-SH), which, as is discussed in section E: Valuation Issues, is used for the transfer of tenanted social housing stock.

Housing associations that undertake a breakdown of cash flows are likely to find that each estate and scheme has an NPV that varies from the average arrived at through the global model. From this analysis it will be possible to identify property that has a low or negative NPV. The next step will be to undertake an appraisal of all the options, including improving the performance of the properties, taking into account transaction costs. Which options are appropriate will depend on the reason for the low NPV, as is illustrated in Table 2.

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**Potential reasons for and options for dealing with low or negative Net Present Values**

<table>
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<tr>
<th>Reason for low or negative NPVs</th>
<th>Options</th>
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<tr>
<td>Low demand leading to high voids</td>
<td>Better marketing; transfer to an association that has better links with the relevant communities from which demand may come; disposal</td>
</tr>
<tr>
<td>Low rents</td>
<td>Improvement; disposal</td>
</tr>
<tr>
<td>High operating costs</td>
<td>Improved efficiency; transfer to an housing association with lower management costs</td>
</tr>
<tr>
<td>High stock investment costs</td>
<td>Improved procurement; stock rationalisation; redevelopment</td>
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**Effects of rationalisation on business planning**

Associations which are contemplating rationalisation of their stock or receiving a significant amount of transferred stock will need to consider the impact on the business plan, including the immediate and long-term impacts on both cash flow and income and expenditure accounts.

The principles set out in the following paragraphs apply to the impact of rationalisation through transfer of ownership, management agreements and leases. In the case of the latter two routes, the effects will vary depending on the terms of the management agreement or lease with more or less of the cash flows moved from the transferor to the transferee.

Other financial aspects are considered in the sections G and I, on funding and accounting.

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**The impact on the business plan of the transferring association**

The long-term effects of stock rationalisation should be assessed by the computation of the expected NPV of the future cash flows (including anticipated expenditure on planned and major repairs) and comparing it with the expected net receipt, assuming that repayment of Social Housing Grant (SHG) will be required. A number of assumptions will need to be made in this assessment, some of which may be quite subjective — for example the marginal management costs that are likely to be saved following the disposal. Where a block of disposals is being planned the effects of this can be quite significant.

The impact on the business plan will depend on market conditions, where the stock is situated and its nature. At the present time, it would be unusual for a transfer or disposal of a general needs property in the South of England to have a long-term detrimental effect to the NPV. In parts of the Midlands and the North of England where rents are lower, and in sheltered and supported housing schemes where costs are higher, properties generally have a low NPV and so may generate negative effects. The accounting impact may be adverse even if the NPV is acceptable because of the accounting treatment of SHG (see section H: Accounting for Stock Rationalisation).

The 2006 Global Accounts of Housing Associations\(^6\) show that a number of associations are dependent on selective disposals to fund their stock investment and development programmes. If they need to dispose simply in order to maintain their stock investment alone, they will find that their business plan will show long-term strains.

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\(^6\) Housing Corporation (2007): 2006 Global Accounts of Housing Associations
The Corporation uses a package of ratio analysis defined in its Financial Analysis Framework and used in Annual Viability Reviews (AVRs). The assessment of long-term financial strength relies on long-term projections of:

- EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) interest cover;
- Cash cost of capital;
- Operating margin; and
- Gearing.

Associations should undertake stress analysis to evaluate the impact of rationalisation on each of these ratios, to ensure that they will not deteriorate to the extent that there is a risk that they will breach the benchmark for EBITDA interest cover and lenders’ covenants.

The typical impact of transfer or disposal, will be a short-term improvement in all the key ratios, followed by a longer-term worsening, unless the property is replaced or fixed costs reduced. If disposal proceeds are reinvested in new housing then there can be long-term benefits, especially if the replacement housing has a higher NPV because it can be managed and maintained more efficiently than that which it replaced.

To summarise the effect of stock rationalisation on the transferor’s business plan:

- transfer will result in long-term improvements if at a higher EUV-SH than the balance sheet value; and
- disposal will generally provide a financial benefit within the year, coupled with a long-term reduction in the scale of business unless the proceeds are reinvested in new stock.

The impact on the transferee’s business plan
The transferee will need to consider the effects of the transaction using its standard evaluation framework for new development schemes. This is generally designed to capture the impact on its business plan. The evaluation will measure the effects in the same way as for any new acquisition.
Rationalisation and other strategies
There are close links between rationalisation and other strategies. These include:

Continuous improvement or service quality strategies
Residents’ expectations are increasing and there are expectations on all associations to provide a range of services that is broader than simply managing and maintaining its stock of homes. The capacity of an association to engage with communities where it lacks a critical mass needs careful consideration. Rationalisation may be an option therefore where an overly dispersed stock hinders service improvement.

The increasing role of residents in reviewing service quality may drive rationalisation, for example, where tenants can see that other local landlords potentially provide a better service.

Efficiency strategies
The cost of managing stock in different parts of an association’s portfolio should be compared. Other things being equal, remote stock will be more expensive to manage than local stock because of the cost and time of travelling. This applies both to the association’s own employees and to those of maintenance contractors. Where management and/or maintenance costs are high, rationalisation may offer a solution if another housing association is better located and has the appropriate range of skills to provide the services more effectively and efficiently.

However, a significant factor in any consideration of rationalisation is the costs of the rationalisation programme itself — the ‘transaction costs’. These must be assessed at the outset and steps taken to minimise them. This will influence whether rationalisation is the best option and, if it is, the form it should take.

In section M: Organising a Stock Rationalisation Programme the transaction costs are compared with the on-costs of development and with realistic efficiency savings to derive a ‘payback period’. These comparisons are key. On the one hand the cost of accepting a transfer of a unit will be less that developing a new unit. On the other hand, in many circumstances the payback period may be lengthy, so that the transaction will only be viable if the costs are minimised and service quality, tenant satisfaction and improvements in engagement are taken into account. A more sophisticated evaluation would be to use a ‘discounted payback period’, which associations may wish to consider.

The consideration of improving efficiency through rationalisation should be incorporated in the association’s Annual Efficiency Statement.
Development strategy
The drive for continuous improvement, efficiency and cost reduction should inform the development strategy. A housing association should not invest in a particular area if it is not able to deliver good quality services at a reasonable cost. If it has access to opportunities and funding that it wants to exploit then it may wish to enter into a partnership with another association from the outset, and include these arrangements in its strategy.

Shared ownership and leasehold management
The management of shared ownership and other leasehold property is subject to the requirement to account in detail at scheme level for expenditure charged through the service charge. Property costs have to be fully accounted for, although landlords are not legally obliged to consider what another landlord might achieve. However, a simple comparison of unit management costs will enable an evaluation of the potential benefits of transfer to another association. Active residents associations might well press for such exercises.

Where an association is managing the residual freehold interest after all the tenants in a scheme have acquired long leases, through the Right to Buy or staircasing to 100% equity in low cost home ownership schemes, it may wish to consider disposal of the freehold on the open market. Such a proposition may be attractive to private investors who will engage private managers to manage the property. It may therefore release resources for investment elsewhere at a higher return. Whilst such a disposal requires Section 9 Consent under the 1996 Housing Act, it is covered by the General Consent. As a matter of good practice, the Corporation would expect the freeholder to consult with leaseholders on the option for enfranchisement before offering the freehold for sale on the open market.

Choosing the most appropriate form of rationalisation
If an association decides to pursue its objectives through rationalisation it will need to consider the variety of forms that this may take. Forms range from transfers of ownership, transfers of management and co-ordination of activities. Each has a distinct purpose and each involves different requirements that need to be met.

As with any other significant decision, the available options need careful evaluation. Some forms of rationalisation are permanent others are temporary. Some are more complex to set up than others. Some involve high initial costs. Others have significant ongoing costs.

As well as possibly saving money, rationalisation will bring with it additional costs that will need to be taken into account. Expected annual cost savings could be significantly reduced by ongoing costs, such as VAT. The transaction costs involved in transferring stock between associations may dwarf the annual saving in management costs, so that payback periods are long, possibly unacceptably long.

Table 3 (On the following page) provides a framework to assist in the appraisal of rationalisation options.
<p>| <strong>Table 3</strong> | <strong>A framework to assist in the appraisal of rationalisation options</strong> |
|---|---|---|
| <strong>Ownership changes</strong> | <strong>Transferring stock</strong> | <strong>Disposing of stock</strong> |
| <strong>Key feature</strong> | Two associations exchange ownership of stock, generally without money changing hands | One association transfers stock to another | One association sells on the open market and reinvests the proceeds elsewhere |
| <strong>Permanent or temporary</strong> | Permanent | Permanent | Permanent |
| <strong>Key advantages</strong> | Where a permanent problem exists, it can bring about a permanent solution and yet does not involve a net loss of stock to one party | Where a permanent problem exists, it can bring about a permanent solution. Unlike swaps, the transaction does not involve any matching of properties | Where a permanent problem exists, it can bring about a permanent solution. It will generate the maximum receipt for re-investment. |
| <strong>Key disadvantages</strong> | Have to find an association with stock of similar value to swap with | Involves a loss of stock to the transferor and therefore fewer properties over which to spread overheads | Involves a loss of stock and therefore fewer properties over which to spread overheads. Re-investment will take time and resources. |
| <strong>Transaction costs</strong> | High compared with management change options | High compared with management change options | High compared with management change options |
| <strong>Ongoing costs</strong> | None | None | None |
| <strong>Tenant consultation</strong> | Full consultation needed because of change of landlord | Full consultation needed because of change of landlord | Will only apply to vacant stock so no consultation needed |
| <strong>Due diligence</strong> | Full searches or warranty from transferring association | Full searches or warranty from transferring association | None |
| <strong>Section 9 consent needed?</strong> | Yes | Yes | Yes |
| <strong>EU procurement rules apply?</strong> | Yes. For estate agency services (e.g. valuations) involving contracts over £100,000 | Yes. For estate agency services (e.g. valuations) involving contracts over £100,000 | Yes. For estate agency services (e.g. valuations) involving contracts over £100,000 |
| <strong>TUPE applies?</strong> | Yes. For estate agency services (e.g. valuations) involving contracts over £100,000 | Yes. For estate agency services (e.g. valuations) involving contracts over £100,000 | Yes. For estate agency services (e.g. valuations) involving contracts over £100,000 |</p>
<table>
<thead>
<tr>
<th>Management changes</th>
<th>Leases</th>
<th>Partnership working</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management agreements</td>
<td>One association manages stock on behalf of another through a management agreement</td>
<td>One association manages stock on behalf of another through a lease</td>
</tr>
<tr>
<td>Temporary — although can be renewed</td>
<td>Temporary — although can be renewed</td>
<td>Temporary but would normally be renewed after a periodic review of effectiveness</td>
</tr>
<tr>
<td>A reversible solution. Can be a precursor to transfer of ownership. Easier to set up than sales and leases</td>
<td>A reversible solution. Can be a precursor to transfer of ownership. Unlike management agreements, no VAT is payable</td>
<td>Can bring about better management whilst involving the least disruption for tenants. Can be relatively easy to set up, but this depends on the number of partners and the degree of similarity in their orientation</td>
</tr>
<tr>
<td>Need for ongoing monitoring. An ongoing payment is involved. VAT is payable on the management fee (unless it is an intra-group agreement), which represents an additional cost to the sector</td>
<td>Need for ongoing monitoring. An ongoing payment is involved</td>
<td>May not save much money if all landlords continue to have the same degree of management input. Involves a lot of negotiation where many parties involved or there are differences in orientation, e.g. a mixture of local and national associations</td>
</tr>
<tr>
<td>Low compared with ownership change options and leases. Predominantly staff time</td>
<td>Will be higher than management agreements. May be lower than freehold sales, although depends on length of lease and the views of the receiving association on the degree of risk</td>
<td>Low compared with other options. Predominantly staff time</td>
</tr>
<tr>
<td>Monitoring, management fee and VAT</td>
<td>Monitoring, payment under the lease</td>
<td>Monitoring</td>
</tr>
<tr>
<td>Limited consultation needed because no change of landlord</td>
<td>Full consultation needed because of change of landlord</td>
<td>Less consultation needed because only certain aspects of management will change</td>
</tr>
<tr>
<td>Lower than for ownership changes. Based on exchange of information</td>
<td>Lower than for ownership changes, although depends on length of lease and views of the receiving association on the degree of risk</td>
<td>None</td>
</tr>
<tr>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Yes. For landlord services involving contracts over £100,000</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Yes. For landlord services involving contracts over £100,000</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>
Creating a stock rationalisation strategy and plan

To create a stock rationalisation strategy as part of its asset management strategy an association will need to conduct an analysis of its portfolio so as to identify stock that will be suitable for rationalisation because of its:

- asset management strategy;
- regeneration strategies;
- business plan;
- continuous improvement programme;
- efficiency programme.

This should be expressed as part of the business strategy prepared by the senior management team and approved at board level.

Creating a stock rationalisation plan

The proposed approach will apply to both a rationalisation programme and undertaking one-off disposals of small groups of properties.

To turn the strategy into a practical plan and programme an association will assemble a candidate list. It will need to consider the following steps:

- valuation;
- operations;
- funding;
- legal issues;
- accounting;
- consultation; and
- implementation.

It will immediately be seen that the delivery of a stock rationalisation plan is complex. It requires staff buy-in, a set of commercial skills and experiences and access to independent professional advice. There are also significant risks to be managed. Consequently, associations will need to consider identifying staff with the responsibility for implementation. Where there is a substantial programme there will potentially be a need to create a team with the explicit responsibility to deliver. This is covered in the section M: Organising a Stock Rationalisation Programme.

Options appraisal

Associations whose stock is suffering from low demand conventionally undertake options appraisals to decide whether to maintain, improve, remodel, transfer or dispose of stock over 10-30 years. This approach can be extended to capture all the strategic factors affecting sustainability and derive a candidate list for stock rationalisation. In particular, significant weighting should be given to service delivery and neighbourhood engagement.

A second stage that is less frequently undertaken is to consider the options for the route to rationalisation once the decision in principle has been taken, including disposal, transfer or a lease. These options are explored throughout the guide and toolkit and the pros and cons set out in the legal section.

There are then further options at the third stage for the process to be followed. Flow charts mapping these processes are set out in Diagrams 1 and 2. The issues are covered in the relevant sections of the guide and toolkit.
Diagram 1

Options appraisal — selection for stock rationalisation

- Tenant satisfaction survey
- Stock condition survey
- Demand survey

Continuous improvement strategy
Efficiency strategy
Development strategy

Business plan
Asset management strategy

Options appraisal
Stock rationalisation candidate list

Diagram 2

Options appraisal — selection of stock rationalisation route

- Stock rationalisation candidate list

Options appraisal

Options appraisal
Options appraisal
Options appraisal

Disposals
Transfers
Lease or agreement

Route to disposal
Choice of transferee
Choice of manager
Valuation issues

Definitions
A number of terms are used to describe different forms of independent valuation used in the housing association sector to establish the worth of a property. They are an aid to negotiating the price between a willing buyer and a willing seller in the marketplace. There are fuller definitions provided in guidance published by the Royal Institution of Chartered Surveyors (RICS) and Communities and Local Government (CLG):

- Market Value (MV) — the worth of a vacant freehold or long leasehold property with no restrictions on use. This is the commonplace definition used in the private residential sector, for which RICS guidance is available;
- Tenanted Market Value (TMV) — the price for a freehold or long leasehold property subject to a tenancy. This is covered in guidance for stock transfer published by the CLG. The regulatory environment requires that the buyer must be another social landlord, which restricts the market place;
- Existing Use Value — Social Housing (EUV-SH) — the worth to a housing association of a tenanted freehold or long leasehold property based on a calculation of the Net Present Value of the long-term cash-flows attributable to the property within the regulatory environment for housing associations. This is the form of valuation accepted for the valuation of social housing stock in housing associations’ balance sheets and is covered by RICS guidance; and
- Latent Value — the difference between the MV and the EUV-SH that would be released on disposing rather than transferring.

Disposals out of sector
Market value will apply to disposals out of the sector.

Associations are expected to maximise receipts on disposal to satisfy their fiduciary duty. They must demonstrate this by obtaining an independent valuation, which will be required to obtain Section 9 Consent. This in turn requires them to consider carefully the method of disposal:

- lotting, i.e. the creation of packages of property that will be attractive to the market;
- marketing arrangements which can include: — auction; — sale by tender (formal or informal); — sale by private treaty through estate agency; — direct marketing, for example through advertising on the Internet.

The choice of method will depend on a number of considerations:

- cost;
- risk of fraud; and
- market factors.
### Table 4

<table>
<thead>
<tr>
<th>Marketing arrangement</th>
<th>Cost</th>
<th>Risk management</th>
<th>Market factors</th>
<th>Best for</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auction</td>
<td>Least cost, especially as part of a large programme</td>
<td>Least risk of fraud; most transparent</td>
<td>True market test, but some bidders can be intimidated</td>
<td>Simple low-value properties for which there is a ready market; when certainty of timing is essential</td>
</tr>
<tr>
<td>Tender</td>
<td>Depends on complexity, but can be economical</td>
<td>Low risk of fraud; limited risk of abortive costs; there may be non-commercial issues to consider e.g. proximity to vulnerable residents</td>
<td>Pre-tender complex properties to identify bidders; Need to stimulate competition</td>
<td>Larger volumes and complex properties; where there is time for bidders to consider information; can be certain about timing</td>
</tr>
<tr>
<td>Sale by Private Treaty</td>
<td>Highest cost</td>
<td>Risk of fraud due to potential for collusion between staff member, agents and buyer, managed through statutory regulation of agents</td>
<td>The norm in the open market; usually managed locally</td>
<td>For small volumes, portfolios or to allow for negotiations over complex property</td>
</tr>
<tr>
<td>Direct marketing</td>
<td>Internal costs; VAT saving</td>
<td>Risk of fraud due to potential for collusion between staff member and buyer, needs to be managed though internal procedures</td>
<td>Where there is a ready market</td>
<td>Where an association has an experienced property team and systems in place</td>
</tr>
</tbody>
</table>

---

7. RICS, Appraisal and Valuation Standards (The Red Book)
**Transfers within the sector**

The valuation issues for the transfer of tenanted stock are more complex than for disposal out of the sector. The calculation of EUV-SH provides the basis of a standard valuation methodology. In part some standardisation is achieved through the regulatory framework designed to protect vulnerable tenants and the restriction of the market to RSLs. However, as in LSVT, the valuation is affected by a wide range of factors. More importantly flexibility provides incentives for the transferor and transferee without which rationalisation may not happen.

The regulatory guidance is that associations are free to negotiate the value for a transfer. The transferor will face the question ‘why transfer for anything less than MV?’ Transfer at EUV-SH passes the latent value on to a third party, and leaves the transferor potentially less able to invest in existing or replacement homes. The reality therefore is that whilst EUV-SH will act as a starting point, transferors will usually want to obtain the best price in a competitive market. This will provide an incentive to undertake transfer and help defray the transaction costs.

From the transferee’s point of view, if it believes that it can manage a property more efficiently than the transferor the property will be worth more to it and the transfer will add value. It will need to carefully evaluate the costs and benefits of the transaction.

Recent experience suggests that there is in fact a competitive market because the EUV-SH to the transferor may differ substantially from the EUV-SH to the transferee. This may be because:

- transferor and transferee have different cost bases and discount rates, which feed into the Net Present Value calculations underlying their assessment of EUV-SH;
- the transferor and transferee take a different view of the requirement for investment in the property;
- the transferee may plan to dispose of a proportion of the properties when they fall vacant;
- the transferee has a view that a unit will have a higher value than strictly justified by a Net Present Value calculation because of external factors:
  - bringing the property into its stock will enable it to spread its local management costs, thus further reducing the cost element of its calculation;
  - it believes that the acquisition will bring further growth to its business so that the property has an artificially high value not reflected in its own financial parameters but in the potential for long-term growth;
  - it is prepared to take a view on the latent value of the property, for example through increasing values following improvement feeding into higher rents or the potential for disposal in future;
  - the transferee’s business model enables it to take a view about the long-term running return and the capital growth that will enable it to maintain its capacity. This will permit it to subsidise growth, and the loss it will incur on a acquiring a transferred unit is no greater than that which it might experience in doing new development at current grant rates.

The dependency of the EUV-SH valuation on this wide range of variables accounts for the wide dispersal of prices achieved. This is commonplace in the transfer of local authority stock. CLG expects a negotiation around the price between the LSVT housing association and the local authority to take place before it will approve the transaction, despite the standardised valuation methodology.

There are circumstances when stock will have a negative EUV-SH from the points of view of both transferor and transferee. This is again comparable to the transfer of local authority stock in disrepair, which may be eligible for gap funding. There is no external source of funding for transfers between housing associations. Therefore the transferor may want to offer a dowry especially if the payment will be less than the negative EUV-SH if it retained the stock. The payment can be made on completion or the transferor could choose to phase it.

It has been suggested that regulation of the valuation of properties transferred between associations would improve prospects for rationalisation. However, regulating the transfer valuation would undermine the incentives to efficiency driving stock rationalisation.
may be input to the calculation of EUV-SH. This is the formula on which the Community Seven partnership in Liverpool is founded (see Box 3), but there are few other examples.

**Costs**

The costs of valuation services will depend on volume. Housing associations should consider procuring services across their entire rationalisation programme in order to negotiate discounts for volume. They should budget for up to 1.5% of the value of property plus VAT and disbursements. A summary of the costs to be budgeted for is in the section Organising a Stock Rationalisation Programme.

A typical brief for valuers to undertake disposals and transfers is shown at Appendix 1.
Selecting the transferee

Transfer process
The transferor association’s operational team will need to set up a process for transferring stock identified for rationalisation. A critical part of the process is the selection of the transferee, which will need to be done in consultation with tenants and the local authority.

Depending on the scale of the programme, the first step will be to create coherent packages or ‘lots’ of stock for marketing to prospective transferees. As part of this stage of the process the association will need to:

• consider packaging area by area or separating out sheltered and supported schemes for marketing to specialist providers;
• consider property in adjoining areas not currently scheduled for disposal that might enhance the value of the package and the management service;
• set target valuations for each lot; and
• informally approach selected associations to create interest.

If there is a substantial programme, the process of lotting can be time consuming:

• the quickest method of lotting would be to create a few large portfolios, but this would not necessarily achieve rationalisation;
• alternatively, an in-depth comparison of the disposition of dispersed stock with the holdings of associations should be considered to enable a breakdown into county or sub-regional lots. This would take longer to put together but allows for the creation of lots that overall may be more attractive to other associations. The outcome is potentially a better return and greater improvements in service from local managers;
• lots should comprise a balance of properties designed to maximise value and avoid the transferor being left with the less attractive properties; and
• outliers should be transferred or disposed of individually to the local association.
Deciding on the transferee association
Where transfers of ownership or management are contemplated, a key decision will be the selection of the association or associations to receive the stock. Decisions involve balancing complex issues, particularly where stock is varied or is spread over a number of areas. The choice of the transferee should result in more rational patterns of ownership and management — this might seem rather obvious but the principle may be forgotten if the overriding drive is to achieve best price. On the other hand the transferee may have strategies to assemble a rational stock holding and this should be taken into account.

The transferor will need to resolve the potential tension between price and rationalisation by establishing transparent criteria for selection of the transferee. As a minimum, it is likely to require that the transferee association:

- fully meets regulatory requirements;
- has a full set of green traffic lights on its Housing Corporation Assessment; and
- has at least one star at Audit Commissions Inspection so that the transferred tenants have nothing fear from the transaction.

Where all the potential transferees have four green traffic lights in their HCAs, the decision on selection should be based firstly on quality of service delivery to tenants.

Further criteria for selecting the transferee can be developed in consultation with the relevant Local Authority and involvement of tenant representatives. They are likely to include:

- an assessment of the quality of service of the receiving association using PIs for the locality;
- guarantees of tenants’ interests;
- commitments to stock investment;
- commitment to and style of tenant involvement;
- commitment to neighbourhood engagement.

More comprehensive selection criteria can be developed. This will generally emerge as a weighted marking scheme taking in commercial and non-commercial factors. The non-commercial factors may include a requirement to have a local management base in order to encourage a more rational outcome. For example, when Sovereign Housing Association sought to dispose of its properties to Devon and Cornwall Housing Association it gave 25% of its points for customer service and 25% for financial strength rather than price (see Box 4 on the following page).
Once the lots and criteria for selection have been established transferees can be approached. At the first stage, expressions of interest will be sought from associations with stock in the area that meet the basic criteria. The transferor, sometimes working with tenant representatives, will select a short list based on financial viability and management strength.

At the second stage bids may be sought for selection based on more detailed proposals to allow the evaluation of the quality of the proposed management service to tenants against the criteria. There will then be further consideration against a marking scheme leading to selection of a preferred partner. The final stage will be the negotiation of price and any other terms.

Box 4

Case study: Sovereign Housing Association’s assessment framework

Ninety-six properties in Devon and Cornwall were disposed of to Devon and Cornwall HA (completion in March 2006) including the transfer of the Supporting People contract.

The motivation for the rationalisation was that the properties were remote, there was no local office and Sovereign did not plan to grow in the area. Costs were similar to other areas but rent restructuring meant that rental income would decline in real terms. Following agreement by the board, all 96 tenants were consulted mainly through face-to-face discussions.

An open tender process was undertaken with detailed information on costs of and income from the properties including future investment needs. The information was fully shared with tenderers so they could undertake their own financial appraisal to arrive at the price they were willing to pay for the properties.

The decision of which association to transfer the properties to was based 50% on price, 25% on financial viability and 25% on reputation for customer service. The aim was to prevent the properties being transferred to a landlord who would not provide a quality service.

The tenderers were scored on a detailed matrix with points awarded for each area. Tenants were involved in the selection panel. The price achieved was below market value but above the SHG and existing loan debt attributable to the properties.
Property swaps
If the valuation issues can be overcome, finding good matches can still be difficult. Despite the freedom to accept less than best price granted under HC Circular F2-21/98, boards may take the view that property swaps do not properly test the market because the number of potential players is likely to be very limited. Transfers for cash can be better because they maximise the flexibility for both the transferor and transferee.

Where there is genuinely a wish to proceed on the basis of mutual trust, a route to resolve the issues is to jointly appoint an external valuer to arrive at a valuation. Both parties would need to agree to the basis of instructions in advance and to commit themselves to accept the independent view, which will be based on norms. The valuer will have an equal duty of care to both parties.

If this is part of a long-term process the two parties may establish a ‘bank’ in which they will accumulate the values transferred between the two until the end of the exercise is reached when there will need to be a financial settlement.

Disposals out of sector
The Corporation will not give Section 9 Consent, under the 1996 Housing Act, to the disposal of tenanted property other than to another housing association or other social landlord.

For the disposal of vacant properties out of the sector staff will need to take the following practical steps:

• identify properties on the candidate list as they fall vacant;
• arrange for the property to be taken out of management and secured;
• instruct a valuer to obtain an independent valuation;
• consider carefully the method of disposal and instruct their valuers accordingly; and
• apply for Section 9 Consent from the Housing Corporation.

By extension, the difficulties of bi-lateral swaps could in principle be overcome if the ‘bank’ were operated independently as part of a service to facilitate rationalisation nationwide. This proposition has been endorsed by the Commissions as worthy of future development and is recommended in the final report.
Lending and funding

It is essential that treasury staff in associations contemplating a stock rationalisation programme consult lenders early. In general, all lenders are likely to be favourably disposed to programmes that will improve the financial performance and efficiency of borrowers, and so extract latent value.

Those lenders with a continuing commitment to lending to the housing association sector will be most likely to be supportive of their borrowers’ business strategies. Bond holders, the parties to securitisations and banks that are no longer committed to the sector may be more reluctant because they anticipated enjoying a secure long-term income stream from the properties.

Risk management
Lenders will wish to be consulted about significant disposals, transfers, leases and management agreements. They will consider whether rationalisation of stock will increase risk, in which case they may propose an increase in interest rates. In material cases they may need to put a case to their Credit Committee. However, the change in risk profile is considered unlikely to be material unless there is a significant change in the proportion of social housing compared with housing for key workers, students or market rent or other forms of market-priced housing in the portfolio.

Managing a dispersed portfolio may be seen as a risk if it puts strains on an association’s management, even if it balances the risk of changes in demand or property values. On the other hand, an increase in concentration is unlikely to be seen to represent an increase in risk unless there are demand issues, in which case it is unlikely that a housing association would propose it in the first place.

Lenders impose corporate covenants that may be affected by stock rationalisation. If the scale of rationalisation is large, the association will need to review its business plan to see if key ratios such as interest cover and gearing will be affected. If so, the association will need to consider its position vis-à-vis its lenders. They may require a new security valuation to ensure that their position will be protected after the transaction.
Security
Since the advent of mixed funding, associations have borrowed corporately against their global assets. Lenders have secured loans on a basket of properties selected for convenience and the highest potential valuation. Therefore the sum of money secured on any particular property will not be directly related to the cash flow it can service and its value, other than through the intermediate process of the valuation (EUV-SH) for security purposes.

The association will need to determine whether property selected for rationalisation is charged to a lender. If so, depending on the form of rationalisation e.g. disposal, management agreement etc, it will then need to release the charge and, if necessary, charge a replacement property to the lender. Generally lenders will prefer a like-for-like replacement, supported by a valuation, rather than repayment, so that they can maintain their exposure to the association. On the other hand, associations often find that they have accumulated surplus security due to rising property values. In small scale transfers they may not need to charge additional properties. If it is not necessary to release a charge, lenders approval to a lease or management agreement will be required.

This process can be time-consuming. Legal and valuation fees will be incurred by both transferor and transferee. The lender will recharge its legal fees to the borrower. In some cases they may charge an administration fee unless the transaction is covered by the global arrangement fee.

Where associations are contemplating an active asset management strategy involving significant transfer or disposal activity, the opportunity could be taken to reorganise security. Some larger associations and groups have charged their property to a Security Trustee who holds the assets on behalf of lenders. In principle, when lenders change there should be no need to charge the properties again; the Trustee passes the benefit of the security between the lenders by entering into a new Trust Deed. This can save fees and disbursements, especially with an actively managed portfolio. On the other hand there are fees for the Trustee’s services so a cost comparison should be carried out, and some lenders will automatically seek to obtain their own assurance before accepting security.

Within groups or partnerships it may be desirable to consider pooling the assets by placing them in one organisation. Rather than reorganising funding and security it may avoid transaction costs by employing Management Agreements to secure the benefits of rationalisation. The funders may require a Deed of Subordination, or similar legal agreement to reassure them that their security will not be undermined.

Issues for the transferee
Once again the issue is simpler for the transferee. It will treat the acquisition as another scheme to be funded through new borrowing or by using its reserves.

Public funding
Some stock will be the subject of public sector funding arrangements. The most common will be Supporting People. The transferee will need to ensure that the commissioning authority will agree to transfer the contract to it.
Legal issues

The board, company secretary, executive team and legal advisors will have a number of legal issues to consider.

Regulatory and contractual approvals
The transferor will require s9 Consent from the Housing Corporation for disposals, transfers and leases. Associations are advised to refer to the local field office or the HC website for the current procedural requirements.

There are additional issues for an LSVT. Its contract for transfer is likely to oblige it to obtain approval from the sponsoring Local Authority, which may demand a continuance of its contractual rights after a transfer or a share of the proceeds on disposal. It will also require Consent from CLG.

A charitable association will need to check its ability to accept a transfer of non-charitable housing such as for key workers, students or market rent or other forms of market-priced housing.

Disposals
The legal route for disposal on the open market will invariably be a full conveyance of the freehold or long leasehold interest.

Transfers
Housing Associations have complained about the lack of simple legal routes to rationalisation in order to avoid the costs and inconvenience of completely unbundling portfolios of property through conveyance. The key consideration in choosing between the routes is the allocation of risk between the parties. The linked consideration is that complex structures are costly to devise and manage, and create their own risks.

This section considers three methods of transfer to achieve rationalisation:

- conveyance;
- lease to another housing association whereby the landlord responsibilities are transferred across;
- management agreement in which a second housing association is appointed as property manager.
### Table 5

**Legal issues**

<table>
<thead>
<tr>
<th>Issue</th>
<th>Conveyance</th>
<th>Lease</th>
<th>Management agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Requirement for consent of the Housing Corporation</td>
<td>S9 Consent required</td>
<td>S9 Consent required</td>
<td>S9 Consent not required</td>
</tr>
<tr>
<td>Due diligence</td>
<td>Full searches required or a warranty from the transferor</td>
<td>Medium level of due diligence required, satisfied by warranties</td>
<td>Basic level of due diligence required, satisfied through provision of information</td>
</tr>
<tr>
<td>Costs</td>
<td>Full costs of legal conveyance may be reduced if a warranty is accepted</td>
<td>Costs of creating lease</td>
<td>Costs of creating management agreement</td>
</tr>
<tr>
<td>Consultation</td>
<td>Full consultation on change of landlord</td>
<td>Full consultation on change of landlord</td>
<td>Lower level of consultation on change of housing management service</td>
</tr>
<tr>
<td>EU Procurement of landlord services</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>Required for contracts in excess of £100,000</td>
</tr>
<tr>
<td>EU Procurement of estate agency services</td>
<td>Required for contracts in excess of £100,000</td>
<td>Required for contracts in excess of £100,000</td>
<td>Required for contracts in excess of £100,000</td>
</tr>
<tr>
<td>TUPE</td>
<td>Required for posts identified with the ‘economic entity’</td>
<td>Required for posts identified with the ‘economic entity’</td>
<td>Required for posts identified with the ‘economic entity’</td>
</tr>
<tr>
<td>Pension issues</td>
<td>Transferee must offer staff access to its scheme.</td>
<td>Transferee must offer staff access to its scheme.</td>
<td>Transferee must offer staff access to its scheme.</td>
</tr>
<tr>
<td>VAT</td>
<td>None</td>
<td>None</td>
<td>Imposed on management charges</td>
</tr>
</tbody>
</table>
Conveyance

Traditional conveyance is intended to pass the entire risk of ownership between the transferee and transferor and, in principle, can be achieved by a simple transfer deed.

The traditional objection to conveyance is that the process is costly and time consuming, principally because of the requirement on the transferee to undertake full searches on the property to uncover any potential risks. However, property being transferred by a housing association will have been owned by a regulated business. Since 1975 when the Housing Corporation's regulatory powers came into effect, the acquisition is likely to have been properly handled and any risks emerging since then dealt with. Any property acquired before 1975 will have been owned for long enough for any risk such as adverse possession claims or restrictive covenants to have emerged and been resolved. Therefore a transferee can take a view about the risk it is taking on.

An effective route to minimise costs has been employed by Large Scale Voluntary Transfer associations. They accept a stock transfer on the basis of a warranty offered by the local authority. Since the transferee can be reasonably sure that the transferor or its successors in title will be in existence for the long term in both the local authority and housing association sectors, the same approach could be used for rationalisation. Such warranties are acceptable to lenders for the purposes of security.

In the case of a stock swap it would be possible to dispense with due diligence and checks altogether because the parties are effectively swapping the risk between themselves.

A set of heads of terms for a warranty between the transferor and the transferee is set out opposite.

It will not be possible to avoid the costs of taking property out of charge to the transferor's lenders and, if necessary charging the property to the transferee's lenders.
Owner's basic warranties

1. The Owner is the beneficial and legal owner of the Properties and has a good and marketable title thereto and all deeds and documents necessary to prove title to the Properties are in the possession of the Owner.

2. Where part of the Properties are registered at HM Land Registry the Owner is the Registered Proprietor and that part of the Properties are registered with Title Absolute and the registered title is free from any caution inhibition or notice and no notification has been received by the Owner or an intention to lodge an application to register any such matters.

3. The Properties are not subject to any easements, quasi-easements, rights, privileges, exceptions, reservations, charges (other than Charges specifically disclosed) other unusual obligations to pay money to a third party or any other encumbrances which materially affect the value of the Properties, their use or enjoyment.

4. The Properties are not subject to any option or pre-emption agreement or any agreement for their disposal or grant by the Owner of any interest or right in the Property.

5. Except where their use is enjoyed by virtue of a public right, the Properties have the right in fee simple to all services currently enjoyed by the Property or necessary for the current use.

6. The Properties are not subject to any material covenants affecting the freehold or leasehold interest other than any covenants already disclosed to the Manager.

7. Where titles to the Properties are not registered at HM Land Registry, there is no caution registered against first registration.

8. No notices adversely affecting the Properties or the Owner’s interest in them have been given or received.

9. All Occupation Agreements which affect the Property are in a form previously disclosed.

10. In relation to the Town and Country Planning Acts currently in force, and all statutory instruments, orders, directions and regulations which derive authority from them (‘the Planning Acts’):

10.1 the current uses of the Properties are permitted under the Planning Acts and are not temporary or limited uses or personal to any party; and

10.2 no development of the Properties has been carried out in contravention of the Planning Acts and all conditions of any planning permissions have been complied with; and

10.3 the Properties are not subject to any outstanding financial charge or claim under the Planning Acts; and

10.4 no agreements made under Section 106 of the Town and Country Planning Act 1990 or Section 33 of the Local Government (Miscellaneous Provisions) Act 1982 materially affect the value, use, marketability or enjoyment of any of the Properties.

11. No adverse matters would have been revealed had the usual local authority land charges searches and local authority enquiries Public Index Map and the Register of Common Land or the Register of Town and Village Greens been made in respect of the Properties and there are no compulsory purchase notices orders or resolutions or any demolition or clearance orders affecting the Properties.

12. The Properties are not subject to any mortgage or legal or equitable charge (whether fixed or floating) other than the Charges nor does any person claim any lien on the Properties or the documents of title.

13. There are no outstanding monetary claims or liabilities, contingent or otherwise, in respect of the Property.

14.1 The Properties are not subject to any unregistered interest which overrides a registered disposition under schedule 3 of the Land Registration Act 2002 other than the Occupation Agreements.

14.2 No one is in adverse possession of any of the Properties or in the course of acquiring any rights adversely affecting any of the Properties.

14.3 There are no outstanding material disputes, actions, claims, demands or complaints in respect of the Properties.
Leases and management agreements
There is a long and positive history of partnership between associations ranging from the arrangements between care and support agencies and landlord associations to the creation of investment partnerships. Many associations would prefer to consider partnering other associations for the management of their stock rather than outright transfer or disposal. This may be for a number of reasons:

• uncertainty about the future so that the irrevocable step of conveyance is to be avoided;
• resistance of tenants and stakeholders to a full transfer without having experience of the service offered by another landlord;
• technical reasons such as lenders’ covenants and legal obligations to stakeholders;
• the costs of conveyance.

The downside is that in any form of arrangement short of conveyance the transferor will retain a degree of risk going forward. They can combine the worst of both worlds — loss of management and retention of risk combined with a burden of complex administration.

Partnerships can be documented in either leases or management agreements. For a number of reasons housing associations may wish to consider leases in preference to management agreements.

Leases
Leases can extend the effect of partnership almost to the extent of a full transfer including the transfer of risk. It is possible to achieve a position where the ‘beneficial ownership of stock’ is effectively transferred from one party to another without a formal conveyance. Under these circumstances, it is possible for the transferee’s auditors to take a view that the entire income and expenditure on a property should be reflected in its income and expenditure account. The freehold or long leasehold ownership will remain with the transferor along with any funding associated with the stock. This is an efficient solution because it avoids the necessity to unwind long-term financing arrangements. However, it does require the agreement of the transferee association’s auditors to the financial impacts on its accounts and of the funders to the agreement as a whole. Funders may require additional comfort that their security had not been compromised.

A range of forms of lease can be devised short of the transfer of beneficial ownership. The risks are shared according to the length of the lease and the benefits and obligations passed across. For stock rationalisation a full repairing lease would be appropriate where the landlord role and the full liabilities for major repairs are passed over (this may require the creation of a sinking fund to manage the requirement to hand back the property in a good state of repair at the end of the lease). The ownership of the land and hence the funding can remain in place.

Heads of Agreement for a typical management lease are at Appendix 2.

Management agreements
Management agreements, where services are purchased from another association, are generally considered to be a less satisfactory form for stock rationalisation. The pros and cons are:

Pros:
• retention of ownership of assets;
• lower level of change for tenants, reflected in lower requirement for consultation; and
• sharing of risk.

Cons:
• VAT is incurred on the management fee, unless the parties are members of a group;
• there is no change of landlord, so the extent of rationalisation is limited;
• there is a limited risk transfer, so the extent of rationalisation is limited; and
• the management contract should be tendered under the EU Procurement directive if the fee for the full term exceeds £100,000 (see below).

Management Agreements are suitable to enable intra-group rationalisation, where there are no issues of VAT or EU Procurement.
EU Procurement Directive

On 10 September 2004 the then Office of the Deputy Prime Minister (ODPM) announced that the Government has accepted that the European Commission (EC) was correct in its view that Registered Social Landlords (Housing Associations) fall within the definition of ‘bodies governed by public law’ as defined in the Directives and therefore must comply with the Directives when conducting procurements. It should be noted that this has not been tested in the courts.

The Directive applies to contracts for services with a total value over its term above a limit set by the EC from time to time. (c£100,000 in 2006, denominated in Euros, and so subject to exchange rate fluctuations). At a typical price for an all-in housing management service including major repairs at £1,500 pa this would equate to 13 units transferred under a five-year comprehensive management agreement.

Property transactions, including entering into a lease, are not caught by the directive. A landlord may therefore freely enter into a lease with a chosen partner subject to the other regulatory requirements.

If an association wishes to place management of a portfolio of more than, say, ten units with another association for five or more years then it will need to consider placing the contract through the EU Procurement process. The process presents a number of challenges:

- it is not possible to specify that the contractor must be a Registered Social Landlord;
- the tender documentation can be drawn up in such a way as to require the standards expected of a regulated business; such as an RSL or accredited landlord, but this will make it complex;
- any consultation with tenants will need to be in two phases:
  - consultation on the service specification for tender without any knowledge of the identity of the eventual service provider;
  - consultation on the offer of a specific service provider following the tendering exercise.
- the formal process will take at least 90 days and must be completed in compliance with the regulations.

The potential benefit is of course that the owning association can be sure that it is getting the most economically effective solution. However, this may not necessarily achieve the long-term goal of stock rationalisation because it is entirely possible that the successful tenderer will be an association from a distant location wishing to enter into the market in the area selected for tendering.

Many grouped associations operate intra group management agreements with a view to rationalising the management of stock within a group. This may be one of the many purposes of the grouping in the first place. Intra-group management agreements are generally not considered to be subject to the EU Procurement Directive, although this has not been tested in court. Most commentators consider that the risk of challenge of contracts within a grouping is negligible.

If a housing association is undertaking a substantial programme of stock rationalisation it will need to retain solicitors and valuers to advise it and provide the independent advice required by regulators. Legal advice is not caught by the directive but estate agency advice is. If a programme of transfer and disposal is in excess of 200 units it may result in a fee in excess of the threshold. The service would then have to be tendered through the prescribed process.
TUPE obligations in transfers

Where housing associations are contemplating transfers of stock between one another they may need to consider whether there would be an obligation under the Transfer of Undertakings Protection of Employment (TUPE) regulations. This is exactly comparable with LSVT where local authorities transfer their housing staff to a new landlord under the TUPE regulations.

The most clear-cut example would be the transfer of a sheltered or supported housing scheme where the scheme staff would have rights to transfer to the new owner.

On the other hand, if a small element of a general needs portfolio is to be transferred there will be issues of scale. Only when the portfolio exceeds the size that could sustain a full-time member of housing staff (say 500 units in one location) would there be a particular need to consider the TUPE implications. The transferor will need to take advice and in may need to undertake an objective exercise to identify which if any posts are directly associated with the portfolio being transferred.

The transferor should inform and consult staff ‘long enough before the transfer to enable consultation to take place.’ There is no strict timetable provided the process has due substance. Good practice would be to give a minimum of 30 days notice. It should be noted that the obligation to inform and consult under TUPE is separate from and in addition to the obligation to consult on redundancies that may arise as a result of rationalisation.

Pensions and TUPE

The Pensions Regulator can require that, where the association transferring stock has a deficit on its pension fund, the receiving association would have to make this good in respect of the staff being transferred under TUPE.

This may be avoided in the case of management agreements by seconding staff from the transferor to the transferee.

Costs

Costs will reduce dramatically with volume. Costs of management agreements and leases will vary widely. At December 2006 typical per unit legal costs for conveyance were in the region of the figures shown in Table 6.

Stamp Duty Land Tax

Sites originally acquired on the basis of the charitable exemption from Stamp Duty Land Tax from 1 December 2003 require further investigation by the transferor to establish whether an SDLT claw-back may become payable. See Box 5.
Stamp Duty Land Tax

SDLT is payable by the purchaser in a land transaction (which means a tenant under a lease).

Land transactions between Housing Associations are exempt from SDLT charge due to section 71 Finance Act 2003 (because both the seller and the buyer are Registered Social Landlords).

However, in cases where the seller (or landlord under a lease) bought a site on or after 1 December 2003 and, at that time, it claimed an exemption from the SDLT charge on the ground that it is a charity, that exemption (or part of it) may be clawed back on a disposal. This would mean that, although the land transaction itself may be exempt, the fact that a transaction has taken place may trigger a charge to the seller/landlord.

If the original acquisition was undertaken on the basis that the intended use was wholly charitable and if this can be independently supported by documentary evidence, then there should be no claw-back on any subsequent disposal. If however the intention on acquisition was always to dispose of part of the site or it was originally bought for mixed charitable and non-charitable purposes, then a claw-back would be triggered on the onward sale or lease. Therefore, sites originally acquired on the basis of the charitable exemption from 1 December 2003 require further investigation by the owner to establish whether an SDLT claw-back may become payable.

| Table 6 |

Costs of management agreements and leases

<table>
<thead>
<tr>
<th>Transferor</th>
<th>Transferee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfer</td>
<td>Transfer</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>With searches</td>
<td>£500</td>
</tr>
<tr>
<td></td>
<td>£5</td>
</tr>
<tr>
<td>Removal of charges</td>
<td>£100</td>
</tr>
<tr>
<td>Lenders’ legal fees</td>
<td>£100</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Accounting for stock rationalisation

The purpose of this section is to set out for accountants and auditors the accounting and cash effects of transfers and disposals of property funded by Social Housing Grant (SHG) by a housing association.

Accounting for the financial impacts of stock rationalisation must comply with the regulatory requirements of the Housing Corporation in force at the time of transfer or disposal, including any payments into the Recycled Capital Grant Fund (RCGF) and timely submission of returns.

This section covers:
- the basic accounting entries for transfers and disposals, showing the impact on an association’s accounts;
- the accounting entries where property is transferred and the transferee association takes on the benefits of SHG and the liability to repay; and
- the requirements on housing associations to keep comprehensive accounting records of costs and grant received.

The principles for LSVTs are the same except that they do not receive SHG on the original acquisition. The issue for an LSVT is its contractual position under which it will be obliged to obtain approval from the sponsoring Local Authority, which may demand a continuance of its contractual rights after a transfer or a share of the proceeds on disposal.

To properly account for the costs and receipts it is important that housing associations keep detailed asset registers. In particular when carrying out capital works to a property after the original acquisition or development the costs should be added to the net book value so that they are treated as part of the historic cost of the property sold. The asset register needs to be sufficiently detailed to enable capitalised overheads and interest to be allocated to individual properties. If the historic costs are not recorded accurately surpluses or deficits on transfer or disposal will be incorrectly stated.

Transfer to another housing association at Tenanted Market Value

In this section we take as an example a property transferred to another housing association at the agreed Tenanted Market Value (TMV). This is agreed between the two parties as being £28,000. Costs associated with the transfer amount to £1,000.

The liability to repay any SHG is transferred to the new landlord. The acquiring housing association would record the SHG liability taken on at the original amount paid of £45,000 and therefore record a gross cost of £73,000 (thus reflecting the net investment of £28,000).

The example set out in Box 6 considers one property in isolation which results in an accounting loss. This may be more typical for properties acquired or developed in the recent past as they may not generate cash surpluses in the early years. On the other hand, the transfer of properties held for many years will likely result in an accounting surplus.
Box 6

**Worked example — Transfer of a tenanted property between housing associations**

At 31 March 2005 a housing association has the following entries relating to a general needs property on its balance sheet:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original development cost (1990)</td>
<td>75,000</td>
</tr>
<tr>
<td>Subsequent capital works (2002)</td>
<td>8,500</td>
</tr>
<tr>
<td>Capitalised overheads on 2002 works</td>
<td>500</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(1,000)</td>
</tr>
<tr>
<td>Net cost</td>
<td>83,000</td>
</tr>
<tr>
<td>SHG</td>
<td>(45,000)</td>
</tr>
<tr>
<td>Balance sheet value – net of grant</td>
<td>38,000</td>
</tr>
</tbody>
</table>

The property is transferred tenanted in 2005/06 for £28,000 and the costs associated with the transaction are £1,000.

In this example the housing association exchanges an asset with a net depreciated cost of £83,000 for £27,000 (net of disposal costs). Significantly, though, the liability to repay any grant is also transferred to the successor landlord.

The deficit to be recorded in the income and expenditure account would be (£27,000 – £83,000) = £56,000. However since the liability to repay SHG is taken on by the new landlord this too can form part of the calculation of surplus or deficit on disposal reducing the reported deficit to £11,000. It is also assumed that loan debt associated with the property is redeemed.

<table>
<thead>
<tr>
<th>Dr</th>
<th>Cr</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing properties</td>
<td>Dr</td>
<td>83,000</td>
</tr>
<tr>
<td>SHG</td>
<td>Dr</td>
<td>45,000</td>
</tr>
<tr>
<td>Income and expenditure account</td>
<td>Dr</td>
<td>38,000</td>
</tr>
<tr>
<td>Write asset out of balance sheet</td>
<td>Cr</td>
<td></td>
</tr>
<tr>
<td>Income and expenditure account</td>
<td>Dr</td>
<td>28,000</td>
</tr>
<tr>
<td>Cash</td>
<td>Dr</td>
<td>27,000</td>
</tr>
<tr>
<td>Income and expenditure account (costs)</td>
<td>Dr</td>
<td>1,000</td>
</tr>
<tr>
<td>Receipt of net proceeds</td>
<td>Cr</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>Dr</td>
<td>38,000</td>
</tr>
<tr>
<td>Loan</td>
<td>Dr</td>
<td>38,000</td>
</tr>
<tr>
<td>Repayment of loan</td>
<td></td>
<td>149,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>149,000</td>
</tr>
</tbody>
</table>
Calculation of surplus/deficit on disposal
Where a property is disposed of on the open market with vacant possession the outcome can be quite different from transfer. For those housing associations that account on a historic cost basis, the surplus on disposal is the difference between the net book value of the cost of the property and the net proceeds of disposal:

- the net book value is the capital cost, less the accumulated depreciation to date attributed to that property; and
- the net disposal proceeds are the gross proceeds of sale less any direct costs (e.g. valuation, estate agent or legal fees) associated with the specific sale.

The surplus is taken to the income and expenditure account and can be used for the housing association's general purposes.

The accounting treatment will differ slightly if the property is sold vacant on the open market compared with a transfer to another housing association at Tenanted Market Value.

In the simple example (Box 7: right) it has been assumed that the loan debt attributable to the property has been repaid. Where properties are charged to a lender their consent will be required for the disposal and the charge will need to be released. Associations will need to consider (as each disposal takes place) whether to:

- Retain the cash released, if they have surplus security available elsewhere;
- Retain the cash released and charge a replacement property to replace security which is being released;
- Repay any borrowings associated with the disposal concerned.
### Box 7

**Worked example — Disposal of vacant property on the open market**

At 31 March 2006 a housing association has the following entries relating to a general needs property on its balance sheet:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original development cost (1990)</td>
<td>75,000</td>
</tr>
<tr>
<td>Subsequent capital works (2002)</td>
<td>8,500</td>
</tr>
<tr>
<td>Capitalised overheads on 2002 works</td>
<td>500</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(1,000)</td>
</tr>
<tr>
<td>Net cost</td>
<td>83,000</td>
</tr>
<tr>
<td>SHG</td>
<td>(45,000)</td>
</tr>
<tr>
<td>Balance sheet value – net of grant</td>
<td>38,000</td>
</tr>
</tbody>
</table>

The property is sold vacant in 2005/06 to a private purchaser for £155,000 and the costs of disposal are £2,000.

In this example the housing association exchanges an asset with a net depreciated cost of £83,000 for £153,000 (net of disposal costs). The surplus to be recorded in the Income and Expenditure account would be (£153,000 – £83,000) = £70,000, although, significantly, the housing association’s cash position is improved, albeit temporarily, by the net sales proceeds of £115,000 after costs and repayment of outstanding loan debt. SHG is required to be reinvested into an approved use within three years of disposal. In the event that reinvestment does not take place the SHG must be repaid.

<table>
<thead>
<tr>
<th>Dr</th>
<th>Cr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing properties</td>
<td>83,000</td>
</tr>
<tr>
<td>Dr</td>
<td>SHG</td>
</tr>
<tr>
<td>Cr</td>
<td>45,000</td>
</tr>
<tr>
<td>Recycled Capital Grant Fund</td>
<td>45,000</td>
</tr>
<tr>
<td>Dr</td>
<td>Income and expenditure account</td>
</tr>
<tr>
<td>Write asset out of balance sheet</td>
<td></td>
</tr>
<tr>
<td>Cr</td>
<td>Income and expenditure account</td>
</tr>
<tr>
<td>Dr</td>
<td>Cash</td>
</tr>
<tr>
<td>Dr</td>
<td>Income and expenditure account (costs)</td>
</tr>
<tr>
<td>Receip of net proceeds</td>
<td></td>
</tr>
<tr>
<td>Cr</td>
<td>Cash</td>
</tr>
<tr>
<td>Dr</td>
<td>Loan</td>
</tr>
<tr>
<td>Repayment of loan</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Treatment of grant on disposal
The other consideration is the treatment of SHG. The Corporation will shortly be consulting on the Recycled Capital Grant Fund (RCGF) regulations. This guide and toolkit reflects the regulations in force at February 2007. Associations and their advisers must ensure that any disposals or transfers take account of the regulations in force at the date of disposal or transfer.

On disposal, the property is being removed from the social housing sector and the grant is repayable. Were it not for the existence of the Recycled Capital Grant Fund (RCGF) the housing association would have to use £45,000 of the cash sales proceeds (shown in Box 7 on page 45) to redeem the grant originally received. This has no impact on the Income and Expenditure account as the amount of grant repayable is fixed at the historic amount of Grant received. The notional repayment of part of the sales proceeds is simply used to remove the SHG liability from the balance sheet of the Housing Association. It does, of course, depress the amount of net cash received from the disposal by the amount of the grant repaid.
RCGF regulations allows associations to retain the grant (although it must reclassify it in the balance sheet as a creditor) for ‘activities that would qualify in principle for SHG.’ Historically, around 50% of RCGF has been used to fund new affordable housing, 30% to fund improvement programmes and 20% for other purposes.

When the amount of grant in the RCGF is spent the accounting treatment follows the treatment of the expenditure. If it is capital expenditure it is classed as an asset and the related SHG is reclassified back into the fixed asset section of the balance sheet. If the expenditure is treated as revenue it is passed through the Income and Expenditure (I & E) account and the related SHG may be released through the I & E account, so that only the net expenditure is charged against the surplus for the year.

Under rules introduced in 2006, the Grant must be recycled in the same region as the property that has been disposed of. However, it is possible to apply for an exemption to reinvest the grant elsewhere and associations may want to consider this if they are proposing to withdraw from a region where they are disposing of stock.

To comply with SHG funding requirements, associations must maintain a detailed asset register including the SHG attributed to individual properties. Where grant is recycled the register needs to be updated to reflect this and a detailed audit trail of such changes is required. Maintenance of such a register is already considered to be good practice although experience suggests that the quality of registers varies considerably between associations.

Disposal where proceeds are less than the SHG
Where a disposal takes place and the proceeds are less than the SHG attributed to the scheme the Housing Corporation will permit the input to the RCGF to be abated, subject to additional requirements. To illustrate, consider a property in a low value area where the accounting information is as shown on page 45 in Box 7 but the gross proceeds are £43,000 and disposal costs are £1,000.
In Box 8 on page 50, the income and expenditure account loss on sale is calculated using the same principles and becomes £41,000 (£83,000 – £42,000); however the RCGF contribution is 'abated' by the shortfall of £3,000 between the grant attributed to the property and the net sales proceeds, and it is only this smaller amount that is transferred to the RCGF. The excess remains in the balance sheet (fixed asset section).

In this situation the Capital Funding Guide requires additional tests where the RCGF contribution is to be abated: 'The eligible deductions from the sale proceeds are the Deemed Loan Debt,11 and the valuation and legal expenses of the disposal. An RSL may not deduct any administration allowance.' So, if the deemed loan debt is lower than the outstanding loan or the costs of sale incorporated an element for internal administrative costs then the abatement would be reduced.

Housing associations are required to keep a detailed record of abated SHG since it can affect subsequent disposals in the same scheme, (identified by its SHG Project Number). If the disposal of a further property in the same scheme were to realise a surplus over and above the SHG attributed to it, any previous abatement can be clawed back. It is only where the disposal of the last property in an SHG-funded scheme takes place and overall there is a deficiency of net proceeds over SHG that the SHG can actually be written off the Housing Association's accounts.

---

11 ‘Deemed Loan Debt’ means for a rental project the shortfall between the Approved Total Cost of the project, used for calculating the final Capital Grant and the total of Capital Grant and any other Public Sector Subsidy input into the project. The amount of Capital Grant used in this calculation is net of any Co—operative Promotion Allowance or Special Projects Promotion Allowance.
Is there a difference if the property is sheltered or supported accommodation?
The principles are no different if the property being considered for disposal has a supported housing element. The sums will clearly be different since many such schemes receive high percentages of Grant when they are developed.

The housing association will need to consider whether the local housing and supporting people strategies indicate demand for a replacement sheltered or supported property into which SHG should be recycled and to which Supporting People funding could be reallocated.

What if the housing association accounts on a valuation basis?
If the housing association states its assets on an Existing Use Value for Social Housing (EUV-SH), then the principles outlined above apply except that any surplus or deficit on disposal has to be analysed as between that which results from the historic cost and that which results from the valuation. The net amount attributed to the revaluation must be disclosed separately, not in the Income and Expenditure account, but in a separate financial statement. This follows the I&E account and is known as the Statement of Recognised Gains and Losses (STRGL).

The example in Box 9 on page 51, shows the position for a transfer association which includes property at valuation amounts in its accounts.

In this example the housing association exchanges an asset with a net book value of £53,000 for £55,000 (net of disposal costs). No SHG is involved. The surplus to be recorded in the accounts totals £2,000 (£55,000 – £53,000). The income and expenditure account will record the realised surplus but this will be offset by the transfer of the past revaluation surplus through the Statement of Realised Gains and Losses (calculated in relation to the original depreciated historic cost of £44,500) of £10,000.
Box 8

Worked example — Disposal of vacant property on the open market

At 31 March 2005 a housing association has the following entries relating to a general needs property on its balance sheet:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original development cost (1990)</td>
<td>75,000</td>
</tr>
<tr>
<td>Subsequent capital works (2002)</td>
<td>8,500</td>
</tr>
<tr>
<td>Capitalised overheads on 2002 works</td>
<td>500</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(1,000)</td>
</tr>
<tr>
<td>Net cost</td>
<td>83,000</td>
</tr>
<tr>
<td>SHG</td>
<td>(45,000)</td>
</tr>
<tr>
<td>Balance sheet value – net of grant</td>
<td>38,000</td>
</tr>
</tbody>
</table>

The property is sold vacant in 2005/06 for £43,000 and the costs of disposal are £1,000.

The housing association exchanges an asset with a net depreciated cost of £83,000 for £42,000 (net of disposal costs). The deficit to be recorded in the income and expenditure account would be (£42,000 – £83,000) = £41,000.

<table>
<thead>
<tr>
<th>Account</th>
<th>Dr</th>
<th>Cr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing properties</td>
<td></td>
<td>83,000</td>
</tr>
<tr>
<td>SHG</td>
<td></td>
<td>42,000</td>
</tr>
<tr>
<td>Recycled Capital Grant Fund</td>
<td></td>
<td>42,000</td>
</tr>
<tr>
<td>Income and expenditure account</td>
<td></td>
<td>83,000</td>
</tr>
<tr>
<td>Write asset out of balance sheet</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income and expenditure account</td>
<td></td>
<td>43,000</td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td>42,000</td>
</tr>
<tr>
<td>Income and expenditure account (costs)</td>
<td></td>
<td>1,000</td>
</tr>
<tr>
<td>Receipt of net proceeds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td>38,000</td>
</tr>
<tr>
<td>Loan</td>
<td></td>
<td>38,000</td>
</tr>
<tr>
<td>Repayment of loan</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>206,000</td>
<td>206,000</td>
</tr>
</tbody>
</table>
Box 9

Worked example — Transfer of revalued property

At 31 March 2006 a housing association has the following entries relating to a general needs property on its balance sheet:

<table>
<thead>
<tr>
<th>Description</th>
<th>Dr</th>
<th>Cr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property at valuation (31.3.05)</td>
<td></td>
<td>54,500</td>
</tr>
<tr>
<td>Original transfer cost (1994)</td>
<td></td>
<td>—</td>
</tr>
<tr>
<td>Subsequent capital works (1997)</td>
<td></td>
<td>—</td>
</tr>
<tr>
<td>Capitalised overheads on 1997 works</td>
<td></td>
<td>—</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td></td>
<td>(1,500)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Dr</th>
<th>Cr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net book value</td>
<td>53,000</td>
<td></td>
</tr>
</tbody>
</table>

The property is being transferred to another housing association at an agreed valuation of £57,500. Disposal costs are £2,500.

<table>
<thead>
<tr>
<th>Description</th>
<th>Dr</th>
<th>Cr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cr Housing properties</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dr Income and expenditure account</td>
<td></td>
<td>53,000</td>
</tr>
<tr>
<td>Write asset out of balance sheet</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cr Income and expenditure account</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dr Cash</td>
<td></td>
<td>55,000</td>
</tr>
<tr>
<td>Dr Income and expenditure account (costs)</td>
<td></td>
<td>2,500</td>
</tr>
<tr>
<td>Receipt of net proceeds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cr Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dr Loan</td>
<td></td>
<td>43,000</td>
</tr>
<tr>
<td>Repayment of loan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dr Revaluation reserve</td>
<td></td>
<td>10,000</td>
</tr>
<tr>
<td>Cr Revenue reserves</td>
<td></td>
<td>10,000</td>
</tr>
<tr>
<td>Realisation of surplus on revaluation</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>163,500</td>
<td>163,500</td>
</tr>
</tbody>
</table>
Consulting tenants and other stakeholders

Consultation and communication
To support the rationalisation strategy, the transferors' tenant involvement and communications staff will need to mount a programme of consulting tenants, leaseholders and local authorities and communicating with other stakeholders. The success of the programme will depend on this because the future satisfaction of tenants will only be achieved if they are fully involved and consulted. Equally, the effectiveness of neighbourhood management will depend on the continuing support of local authorities.

Consultation will need to be carefully managed to fit in with the timetable for the programme. In particular, where staff are to be transferred they must be informed and consulted. Good practice suggests that this should take place at the earliest stages.

Special considerations apply in renewal or regeneration areas.

Consulting tenants and leaseholders

Legal and regulatory requirements
Housing association tenants who have secure tenancies have a statutory right to be consulted in changes in housing management under section 105 of the Housing Act 1985.

Whilst assured tenants do not have a similar statutory right, the Housing Corporation's Regulatory Code (para 2.5) makes it clear that associations must seek and be responsive to residents' views and priorities and that they must enable residents to play their part in decision making. In addition, where the Housing Corporation's consent to disposals under Section 9 of the Housing Act 1996 is required, it has made it clear that, where tenanted stock is concerned, associations must consult their tenants before they apply for consent.¹²

¹² Housing Corporation (2003), Disposing of Land (section 9 of the 1996 Housing Act), para 6.3.
Consultation on management agreements may be constrained by the requirements of the EU Procurement Directive. The contractor must comply with the regulations, which prohibit anti-competitive behaviour. Carefully worded tender documents can provide for tenants to take a role in the selection and apply non-financial criteria. However, the formal process has to be undertaken fully in compliance with the regulations to avoid the risk of challenge.

**What tenants and leaseholders should be consulted about**
The Manchester Stock Rationalisation Commission recommended that housing associations should ensure that, when transfer of stock to another landlord is being considered, tenants are fully involved in strategic decision-making including being involved in any selection of alternative landlords. The Commission also recommended that, when transfer to another landlord is proposed, tenants — individually and collectively — should be given sufficient information and should be fully consulted about the transfer and have the opportunity to address any issues of concern by meeting with the proposed new landlord.

Where transfers of ownership or management are contemplated, it is helpful to think about consultation in two stages. Consultation should take place over:

- formulating the proposal; and
- the final proposal when all details including the identity of the transferee are clear.

**Formulating the proposal**
There are three issues in which tenants and leaseholders should have an opportunity to have an input during the proposal formulation stage:

- the decision to rationalise;
- the form that rationalisation should take; and
- the choice about who the transferee(s) should be.

Associations will have to take a view about the form this consultation should take. It will in part depend on the nature of their usual consultative arrangements and partly on the scale of the changes proposed.

Options range from exchange of written information, discussions at standing consultative forums, open tenants’ meetings and the establishment of specific decision making forums on which tenants or leaseholders are represented, for example a selection panel to choose the transferee.

Some consultative processes, for example the selection panel, can only involve a limited number of representatives of tenants or leaseholders. It is, however, important that all tenants and leaseholders are given information and are allowed to make an input during the formulation stage. A series of initiatives may be needed — perhaps some initial information saying that consideration of options is being considered and then more information once a preferred course of action has emerged.
The final proposal
It is important that each household affected by a proposed transfer of ownership or management is given the opportunity to express a view on the proposal before a final decision is made. This may be carried out through one to one visits, group meetings, or by writing to all those affected, setting out details of what is proposed, reasons for the changes and what in potential terms the changes mean. There is no requirement for a formal ballot, but good practice and regulatory guidance dictates that tenants should be given at least six weeks to respond.

As with any consultation of this kind, specific arrangements will need to be made for tenants and leaseholders for whom English is not their first language and for those with sensory disabilities. Tenants and leaseholders should be given a variety of ways to make a response to the proposal.

Where there are groups of vulnerable tenants or leaseholders, such as older people or those with disabilities (for example those living in sheltered or supported housing schemes), then they should be provided with help to understand the proposals and to formulate their views. This is likely to include face-to-face consultative opportunities, such as one to one or group meetings and the involvement of advocates.
Dealing with reactions to the proposals
Experience suggests that well-formulated proposals will generally be welcomed. However the transferor needs to be equipped to deal with a range of reactions: support, indifference, worries and possibly hostility.

Particular efforts will need to be made to deal with any worries and hostility about the proposals. Concerns could range from those about security of tenure, rent levels, the honouring of promises about refurbishment and the reputation of the transferee.

These issues should be dealt with ‘head on’ through the provision of factual information. It is important that, where staff are not able to answer questions there and then, they make a note of the issue and follow up with the answer as soon as they can.

The results of the consultation exercise will be taken into account by the stock rationalisation team and reported to Board and the Housing Corporation as part of the application for Section 9 Consent.

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These issues should be dealt with ‘head on’ through the provision of factual information. It is important that, where staff are not able to answer questions there and then, they make a note of the issue and follow up with the answer as soon as they can.

The results of the consultation exercise will be taken into account by the stock rationalisation team and reported to Board and the Housing Corporation as part of the application for Section 9 Consent.

Consulting local authorities
The Housing Corporation expects local authorities in whose areas stock is being transferred to be consulted in advance of an application for Section 9 Consent.
It is important that local authorities are engaged early on in the process. They may well have views about potential transferees, the suitability of the short listed associations and the extent to which the rationalisation objectives are likely to be achieved by the proposal.

Authorities may also have a direct financial interest in the properties. They may have provided the development funding. They may be providing ongoing revenue support through Supporting People or other programmes.

They will undoubtedly have an interest in the continuation of nomination arrangements and any arrangements entered into under Section 106 agreements.

**Consultation and communication in renewal and regeneration areas**

Where associations are involved in area-based strategies for market renewal or regeneration there will typically be consultation and communication arrangements in place to engage the community in the programme. The technical requirements will be identical except where CPO or other enforcement action is contemplated, when formal legal processes will be put in place by the local authority or lead agency.

Associations involved in area-based strategies should promote early discussion of the pattern of stock ownership and management to be delivered by the programme. They should be prepared to put their stock at the disposal of the community and encourage rational outcomes that will enable neighbourhood management on the completion of the project. Stakeholders should be prepared to reward associations that are prepared to act in this way.

**Communicating with other stakeholders**

There may already be housing associations or other organisations involved in a group of properties that are the subject of a rationalisation initiative. For example, the proposal may relate to a change of ownership of homes currently managed by a third party.

Clearly, all relevant parties need to be informed of the proposals and the reasons for them, as early in the process as possible.

Other stakeholders who should be kept informed about proposals may include:

- local councillors and MPs;
- community organisations;
- housing benefit service;
- maintenance contractors;
- community alarm service providers; and
- funders (see section G: Lending and Funding).
Leasehold and low cost home ownership property

Introduction
Low cost home ownership (LCHO) is becoming an increasing part of the asset base of associations. The leasehold or LCHO team will need to be fully involved if this stock is to be rationalised.

Continuous improvement and efficiency
The management of shared ownership and other leasehold property is subject to the requirement to account in detail for expenditure recharged through the service charge. Management costs are more likely to be driven by the experience of the manager and the efficiency of their systems rather than geography. Property costs have to be fully accounted for but the legal test does not require a landlord to consider what another landlord might achieve. Therefore a simple comparison of unit management costs will enable an evaluation of the potential benefits of transfer to another specialist manager.

Legal issues
The principle legal issue will be the housing association's policy on whether it will be prepared to dispose of leases of properties within its estates. On the one hand, this may contribute to a strategy of creating a mixed tenure community, improving long-term sustainability. On the other hand, leasehold management requires a different approach to traditional housing management. This will be familiar to housing associations whose tenants have exercised the right to buy on flats or managers of low cost home ownership schemes. The proper arrangements for collecting service charges and managing the freehold will need to be made and are governed by separate regulations.
Valuation issues
Rationalising low cost home ownership stock brings with it some unique challenges, the principle one being an assessment of residual value and timing of its release. In other words, the EUV-SH will be calculated assuming:

- the MV of 100% of the equity;
- the likely timing of staircasing, based on experience;
- the likely amount of any future staircasing receipts, based on projections of the increase in MV; and
- the projected value of the freehold reversion.

Valuers will be able to provide current MV and estimate future growth. The transferor will be in a position to estimate the likely pattern of staircasing based on its experience. The transferee will wish to take its own view and may wish to discount the value for risk. There is therefore considerable room for divergence of view. Given the features of leasehold management this argues for an open tendering approach, unless of course the low cost home ownership stock is associated with rented housing in a multi-tenure estate.

Where an association is managing the residual freehold interest after the majority of tenants in a scheme have acquired long leases through the Right to Buy or staircasing to 100% equity then it may wish to consider disposal of the freehold on the open market. Such a proposition may be attractive to private investors who will engage private managers to manage the property. It may therefore release resources for investment elsewhere at a higher return.
Box 10

**Worked example — Disposal of property to another housing association at TMV**

At 31 March 2006 an association has the following entries relating to a shared ownership property on its balance sheet:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original development cost (1990)– total £75,000</td>
<td>37,500</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(1,000)</td>
</tr>
<tr>
<td>Net cost</td>
<td>36,500</td>
</tr>
<tr>
<td>SHG</td>
<td>(22,500)</td>
</tr>
<tr>
<td>Balance sheet net book value</td>
<td>14,000</td>
</tr>
</tbody>
</table>

In this example the association exchanges an asset with a net book value of £14,000 for £37,000 (net of disposal costs). In addition the liability to repay any grant is transferred to the successor landlord.

In this example the surplus to be recorded in the income and expenditure account would be (£37,000 – 14,000) = £23,000. It is also assumed that loan debt associated with the property is redeemed.

<table>
<thead>
<tr>
<th>Description</th>
<th>Dr</th>
<th>Cr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing properties</td>
<td></td>
<td>36,500</td>
</tr>
<tr>
<td>SHG</td>
<td></td>
<td>22,500</td>
</tr>
<tr>
<td>Income and expenditure account</td>
<td></td>
<td>14,000</td>
</tr>
<tr>
<td>Write asset out of balance sheet</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income and expenditure account</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td>37,000</td>
</tr>
<tr>
<td>Income and expenditure account (costs)</td>
<td></td>
<td>1,000</td>
</tr>
<tr>
<td>Receipt of net proceeds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan</td>
<td></td>
<td>14,000</td>
</tr>
<tr>
<td>Repayment of loan</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>88,500</td>
<td>88,500</td>
</tr>
</tbody>
</table>

Rationalisation of housing association stock
A guide and toolkit
Consultation issues
Leaseholders have specific consultation rights in relation to the service charges. They will have to be informed about a change in freeholder and manager, and new consultation arrangements put in place.

Accounting issues
The principles of transferring shared ownership property and fully owned property are, in most cases, identical. For completeness an example of the transfer of a shared ownership property being transferred to another association whilst still leased is as follows.

We continue to use as an example the facts set out as in Box 8, except that on construction 50% of the unit was sold. The remaining equity interest is now being transferred to another association at an agreed value. It is likely that this value will be closer to open market value than TMV since the value to the new landlord will be the discounted value of the potential price of subsequent staircasing sales. This will be highly sensitive to assumptions about growth in MV and timing. Furthermore, given the transfer of the initial equity stake, it is unlikely that the original landlord would have incurred the cost of any subsequent works. This TMV is agreed between the two parties as being £38,000. Costs associated with the disposal amount to £1,000.

On the transfer to another association the liability to repay any SHG is transferred to the new landlord, and the calculation of the surplus or deficit on disposal must take into account the SHG element.

The transferee would record the SHG liability taken on at the original amount paid of £22,500 and therefore record a gross cost of £60,500 to reflect the net investment of £38,000.
Stock rationalisation within group structures

Introduction
There is an increasingly frequent need to rationalise stock within a group structure. Associations should use any opportunities arising from group/merger/partnership activities to deliver rationalisation and the Corporation will expect the business case to evidence that rationalisation has been actively considered. Differences from the general advice follow.

Strategy
Groups operate different internal strategies within the framework established by the Housing Corporation’s Good Practice Note 11. Some are decentralised, operating a federal framework. Others are more centralised, expecting subsidiaries to comply with group norms. In either case, there will be an assumption that property should be rationally distributed amongst the subsidiaries according to their geographical role or specialism, and this will be achieved through the techniques set out in this guide.

There are choices about whether the asset management strategy, within which the policy for internal rationalisation will reside, is implemented consistently across the group or whether individual subsidiaries are permitted to run their own Strategies.
**Business planning**

The normal process of managing a group is through the approval of group and subsidiary business plans. The allocation of properties between subsidiaries will not affect the overall outcome for the group as a whole. It will expose the strengths and weaknesses of individual subsidiaries.

Decentralised groups will be content for there to be differences in performance between subsidiaries, which may result in resources accumulating in some parts of the group but not in others. More centralised groups will want to achieve the optimum deployment of resources. This can be achieved by:

- collective arrangements for the deployment of resources with an agreement on the proportions to be retained by subsidiaries and the proportion available to the group as a whole;
- the creation of more sophisticated methods of resource allocation though an ‘internal bank’;
- the movement of all assets into one vehicle by transfer or a comprehensive Management Agreement; and
- the complete merger of the entities, leaving the subsidiaries as Business Units, managing rational sets of properties and having their own brands.

This guidance does not seek to advise on the merits of these arrangements.

**Valuation**

Associations should determine whether it is necessary to obtain an independent valuation for intra-group transfers or whether they can rely on the accounting valuation.

**Legal**

Differences are that intra-group management agreements are exempt from:

- The EU Procurement Directive (although this has not been tested in the courts); and VAT (where a VAT group has been approved by HMRC).

Under these circumstances management agreements may be preferable to leases. Where the effect of the agreement is to move the ‘beneficial ownership’ of stock, lenders may require additional comfort that their security is not affected.

**Consultation**

Consultation about intra-group transfers can be managed as part of the group’s regular tenant involvement activities. In many cases the internal rationalisation will be planned as part of the integration of the group. Under these circumstances the intention to rationalise can be built into the general consultation on grouping.

**Accounting**

Most groups wish to ensure that the managing association has full management responsibility for group stock. This would entail a full transfer of risk and reward. Under these circumstances, the beneficial ownership of the stock will pass between the parties. Subject to the advice of the auditors, it is possible to incorporate in the managing associations’ business plan, management and financial accounts the full financial effect of owning and managing the transferred stock without undertaking a conveyance. This has advantages if the group does not wish to unwind the owning association’s borrowings and so needs to keep the security in place.
Organising a stock rationalisation programme

Staffing issues
To be successful in rationalising stock and managing a portfolio actively requires well-organised team effort. This will require leadership from a dedicated manager with responsibility for delivering the targets, the support of the chief executive and executive team and ultimately the sanction of the board.

Stock rationalisation can appear at first sight contrary to the vision, values and culture of housing associations. To exercise leadership, the management of housing associations will need to communicate the underlying reasons for the programme in terms that staff will readily understand. Staff will recognise and buy in to programmes that are intended to:

• refocus resources on engagement in key neighbourhoods;
• deliver consistent standards of services across the stock;
• replace outdated stock that no longer meets customer needs;
• achieve improved efficiency in pursuit of corporate targets; and
• deliver cash receipts that will strengthen the business.

Staff directly affected by stock rationalisation may have rights under TUPE (see page 40) or, if part of a wider restructuring, under employment law. As a minimum, appropriate arrangements for information and consultation must be put in place.
Staff will have the roles of refining the list of stock for disposal, preparing it for action and project managing the programme. However, there is a series of roles that might be better outsourced and a range options for doing this:

- marketing packages for transfer to Housing Associations by open tender and proactive marketing to selected potential partners — a firm of surveyors with knowledge of the housing association market;
- negotiating on price and any other detailed terms of transfer — a firm of surveyors with knowledge of the housing association market;
- disposals of remote conventional housing — auction and local agents; and
- disposals of sheltered and supported schemes — specialist surveyors capable of running options appraisals to maximise value.

The skills required of the team of staff and consultants necessary to implement a stock rationalisation programme are similar to those required for development staff. They include:

- project management skills;
- analytical skills;
- a high level of numeracy;
- risk awareness;
- attention to detail;
- sensitivity to the needs of tenants and stakeholders;
- commercial awareness; and
- administrative skills.

In addition, there is a highly competitive market for development experienced staff. Asset management professionals are also in high demand.

There is clearly a significant need to identify and train a group of housing professionals who will be undertaking this demanding work.

Creating a stock rationalisation team
There are several considerations in creating a stock rationalisation team of staff and consultants.

The options for reporting lines for the team include:

- as part of the asset management team, where it will sit alongside staff charged with considering options for property suffering from low demand or in need of investment;
- in the development team, where staff will be familiar with interactions with the private sector in acquiring land and property and may have a greater sense of the market; and
- in a strategic unit elsewhere.

The next consideration will be the degree to which the operation is outsourced. This will depend in part on the scale and duration of the programme. It is possible to leave much of implementation to surveyors and valuers but at a higher fee level than would be achievable if there was an in-house team. In all cases it will be essential to identify an officer with client responsibilities.
The team will need agreed procedures and levels of delegation along the same lines as the development team, permitting staff to proceed with transfers and disposals within a framework established by the board. This will then require arrangements for reporting back and progress chasing. As with any other activity of an association that impacts the business plan it will be helpful to set numerical and financial targets and monitor against them.

Because of the potential risk of fraud, associations will want to direct the internal audit service to review the procedures as they are put in place.

The team will require support from other colleagues within the association. In particular, there will need to be a very close working relationship with the finance team to identify income and expenditure attributable to estates and schemes, to undertake initial options appraisals and to account for transfers and disposals. If the scale is sufficient it may justify the identification of one or more accounts staff who will service the team.

Operations staff will need to work as part of the team to assist in the identification of the candidate list for transfer and disposal, arrange decanting, arrange consultation for transfer, consult with local authority stakeholders and follow through the processes necessary to take the units out of housing management systems on completion.

**Project planning**
At typical project plan is at Appendix 3.

**Monitoring and accounting for the programme**
The transferor will require close adherence to the business plan targets. It will need to monitor:

- numbers of properties under offer;
- numbers of properties transferred on EUV-SH;
- amounts received under EUV-SH;
- number of properties disposed of at MV;
- amounts received under MV and consequent RCGF resources; and
- utilisation of RCGF resources according to SHG rules.

It is likely that the business plan will be very sensitive to a significant rationalisation programme. It is suggested that reports will need to be constructed for production monthly. This should include a review of the pipeline.

Where properties are transferred on a management agreement and the association retains the responsibility for marketing voids, monthly reports will be required and mechanisms built in imposing penalties if the managing agents delays informing the owner of a potential void.

**Budgetary issues**
The build-up of estimated unit transaction costs experienced by transferor and transferee associations in recent transactions is as follows:
**Table 7**

Costs of management agreements and leases

<table>
<thead>
<tr>
<th>Service</th>
<th>Transfers</th>
<th>Disposal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£ per unit</td>
<td>As %</td>
</tr>
<tr>
<td>Transferor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal Transfer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• with searches or</td>
<td>500 or</td>
<td>1,000</td>
</tr>
<tr>
<td>• with warranty</td>
<td>5</td>
<td>100</td>
</tr>
<tr>
<td>Removal of lenders’ charges</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Estate agency/valuation</td>
<td>300</td>
<td>1%</td>
</tr>
<tr>
<td>Lenders’ fees</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>SDLT claw-back</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>1,000–1,500</td>
<td></td>
</tr>
<tr>
<td>Transferee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal Transfer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• with searches</td>
<td>500 or</td>
<td></td>
</tr>
<tr>
<td>• with warranty</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Lenders’ legal fees</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Land registry fees</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Estate agency/valuation</td>
<td>300</td>
<td>1%</td>
</tr>
<tr>
<td>Lenders’ fees</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>1,100–1,600</td>
<td></td>
</tr>
</tbody>
</table>
The internal administration costs to both parties are frequently under-estimated, leading to failures to deliver programmes. A 50-60 unit rationalisation programme is likely to justify the appointment of a full-time equivalent member of staff.

The external costs can be reduced if the transaction is by private treaty, as in a swap, rather than put to the market for competition. Under these circumstances, a jointly agreed ‘sellers pack’ could be arrived at so that there would only be one set of administration costs and legal and valuation fees, giving a total cost of c£1,300, which is of the order of a full year’s net rent income after funding costs.

Any costs associated with breaking the transferor’s loan arrangements, for example though early repayment, will be additional. They are non-standard but if incurred would be likely to render the transaction non-viable. However, they can be avoided or mitigated by effective treasury management.

The costs of creating leases or management agreements are non-standard and will need to be estimated case by case.

**Payback**

At the outset of formulating a stock rationalisation programme the transferor should take into account transaction costs in an options appraisal using discounted cash-flow techniques (see under Using Business Planning to Consider the Need for Rationalisation on page 14). At the most simple level, the transferor will compare the transaction costs with the potential under-performance of the property over 30 years, were it to retain it. If it costs £1,000 to transfer it will be financially motivated to undertake the transaction if its unit management and maintenance costs are more than, say, 5% (or £50pa) higher than its average.

To recoup its transaction costs the transferee will have to save c£1,000 on the management and maintenance costs to the transferor, which is broadly the equivalent of one year’s total costs. If this is taken over 30 years then it would looking to save at least 3.5%

The transferee is likely to compare the costs of receiving a completed property with the costs of new development. With the development administration on-costs typically in excess of 2% of capital costs of say £100,000, giving a typical cost of £2,000 put, the transaction is likely to appear very attractive, especially when the level of risk will be very small. This is directly comparable to the attitude of associations to the transfer of stock from local authorities.

It is for these reasons that associations with irrational stock holdings have proved reluctant to transfer. On the other hand, experience suggests that the premium to EUV-SH that transferees are prepared to pay will more than compensate for the transaction costs and this should therefore provide the necessary financial incentive.
Monitoring outcomes

The transferee should put in place arrangements to measure the outcome of rationalisation. The main report and this guide and toolkit urge that associations should collect data at local or scheme level. Following a transfer it would be desirable to collect 'before and after' information on:

• Tenant satisfaction;
• Management costs;
• Sustainability, including voids and incidence of anti-social behaviour;
• Evidence of engagement with the local community.

In market renewal and regeneration areas the partners will generally collect information about outputs and outcomes to account to project sponsors. Again it would be desirable to compare the 'before and after' indicators by landlord, although the extent of change will make it difficult to identify the contribution of rationalisation the outcome.
Appendix 1 — Briefs for valuers for a mixed transfers and disposals programme

Introduction
A housing association (xHA) has stock that is widely distributed with relatively small amounts of stock in some locations. It has concluded that it will be more effective for housing associations with a critical mass of stock in each locality to deliver services. It has therefore decided on the partial rationalisation of its stock.

This brief is to commission advisors to manage the transfer and disposal of:

- general needs stock.; and
- certain sheltered and supported housing schemes.

Purpose and overview of transfer and disposal programme
The purpose of the transfer and disposal programme is twofold: first, to improve the service to residents by ensuring a more-locally based housing association can deliver management services; secondly, to generate income to be re-invested in new stock and the stock retained by xHA.

The successful advisor will need to demonstrate the ability to provide accurate MV valuations across the geographical areas for which he/she is applying and familiarity with the Existing Use Value — Social Housing method of valuation as defined in RICS guidance. The advisor will be required to certify that transfer and disposals of tenanted stock and voids are consistent with the relevant valuation.

The overall target value for the transfer and disposals programme is equivalent to (a)% MV and (b)% EUV-SH based on an even spread of void and tenanted properties across the stock. Advisors will be required to achieve the target value with fewer than (a)% actual voids. The level of current voids is well under such and such a per cent, and approximate current void numbers are indicated on the table below. Annual turnover is estimated at such and such a per cent.
The proposal is:

- to dispose of vacant stock outright (as well as any voids occurring between now and the date of transfer to Housing Associations of the remainder);
- to transfer the remaining stock to Housing Associations on the basis of best consideration for the tenanted property, subject to satisfactory proposals for management that protect the interests of the existing tenants.

It would then be up to the transferee to determine how many properties to dispose of and to gain the relevant consents.

These proposals are subject to: consultation with residents, which is required both from a good practice point of view and to comply with legal and regulatory requirements; consultation with other stakeholders (e.g. relevant local authorities); and to receipt of the consent of the Housing Corporation (S9 Consent) and lenders’ approval.

The candidate list of transfers and disposals plan is made up as follows:

- (p) general needs units in (q) locations;
- (r) leasehold units;
- (s) sheltered units in (t) locations — (u) sheltered schemes plus satellite units — and
- (v) Supported units in (w) locations.

A full list of the transfer and disposals is attached, but in summary they have been grouped into clusters by region in Table One attached.

There will be a two-stage approach to tenant and stakeholder consultation:

- consultation on the principles of transfer;
- second-stage consultation once the identity of the transferee is known.

**Duties of the advisor**

To advise on the proposed lots, including the lotting of sheltered and supported housing.

To carry out MV valuations on voids, to advise on the best approach to disposals and to market these properties.

On agreement of terms with a potential purchaser for a vacant property, to certify that the offer is reasonable in the market and to issue a report to this effect;

To carry out EUV-SH valuations of all the tenanted stock and report back with comprehensive schedules.

To agree (with housing association) a reasonable target expectation figure for each lot, based on EUV-SH and knowledge of the local market.

To agree with xHA the final format of any management requirements to be included in offer documentation.

To soft-market test the lots with likely housing association purchasers.

To draft the offer documentation, advertise the opportunity and send out tender documents to interested housing associations (note: xHA will reserve the right to decline any tender for any reason).

To consider the offers received and, in conjunction with xHA, review the management proposals for suitability and potential to improve the service to the residents. This will include involvement in the second stage tenant consultation process. To issue a report making a recommendation as to transfer and disposal.

To liaise with solicitors appointed (by housing association) to ensure that the transfer and disposals are effected in a timely manner.

To report back to xHA on a monthly basis on progress.
Timetable
The transfers and disposals programme is planned to commence from [...]. Where financial targets for lots are met it is anticipated that transfers to housing associations should be made as soon as reasonably possible without adverse impact on valuations.

Tender basis
Advisors are asked to tender for this role on the following basis:

1. State on the company’s letterhead the name and contact details of the partner/director to be responsible for the work, the senior staff to be involved and the office from which the commission will be managed.
2. State whether any director, partner or senior employee of the company has any business connection or close relationship with any board member, director or senior employee of xHA.
3. A précis of the company’s and the senior staff’s experience of and resources for this nature of work in the geographic area being tendered for (two sides of A4 max).
4. Details of any local agents or contacts they would propose to use in the process, and the work areas and localities affected (one side A4).
5. Details of professional indemnity Insurance cover held
6. Names and contact details, plus details of the sort of work carried out by the tenderer for them, of two referees not connected with the housing association.
7. The fee required set out in the format of Table 1 right. If different fees are required for different lots, please supply a copy of the table for each lot as required.

The tender is to be returned to xHA. The envelope should bear the words ‘Tender for Stock Transfer Consultancy. DO NOT OPEN before [......]’ The envelope should bear no mark to identify the tenderer and must be received at the housing association by 12 noon on [...] either in person (where a receipt will be offered) or by recorded delivery.
### Table 1

#### Draft list of transfer and disposal clusters and constituent local authority areas

Disposal / transfer of _____________ HA stock  
Tenderer: _______________ Cluster(s) _______________

<table>
<thead>
<tr>
<th>Part A — Activities priced on lump sum basis. Estimate of time required in person hours to be made by consultant for information only. Price is fixed lump sum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activity</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>2</td>
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<tr>
<td>3.</td>
</tr>
<tr>
<td>4</td>
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<tr>
<td>5.</td>
</tr>
<tr>
<td>6</td>
</tr>
</tbody>
</table>

#### Part B — Activities to be priced on the basis of a percentage of the sales proceeds

<table>
<thead>
<tr>
<th>Activity</th>
<th>Description</th>
<th>Basis of tender</th>
<th>Tender percentage ( inc disbursements, excl VAT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Administering the transfer process of tenanted stock, to include instructing solicitors, monitoring progress, co-ordinating flow of information on tenancies, title etc, negotiations arising with selected purchaser etc.</td>
<td>Percentage of price received</td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>Sale by private treaty of vacant property on individual basis. To include estimate of MV, preparation of details, local advertising, viewings as needed, negotiations and a report with recommendations.</td>
<td>Percentage of price received</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Sale by auction of vacant property on individual basis (sales of portfolios to private landlords will not be allowed). To include estimate of MV, preparation of details, local advertising, viewings as needed and the auction.</td>
<td>Percentage of price received</td>
<td></td>
</tr>
</tbody>
</table>
Appendix 2 — Heads of a management lease

1. Definition of premises
   1.1 Specifies both the extent of the landlord’s interest and whether the tenant is responsible for the whole of an estate, or building, or just part.
   1.2 Defines the rights the tenant is granted, and the rights the landlord retains.

2. Duration of lease
   Specifies the duration of the lease, any early break rights, who can exercise them and the circumstances in which they are exercised.

3. Financial terms
   3.1 Income
       The tenant collects and retains all rental and service charge income from the commencement of the lease until it ends, so accepts the risk of arrears voids and bad debts during that period.
   3.2 Outgoings
       The tenant is responsible at its own expense for meeting:
       - all costs arising from its functions;
       - all outgoings payable for the premises [such as rates, taxes, services, meeting obligations to tenants];
       - responsive repairs;
       - cyclical maintenance;
       - payment on an agreed basis into repairs and renewals sinking fund; [major repairs and renewals]
   3.3 Rent payments to landlord
       Defines what the tenant pays the landlord. Several possible approaches:
       - calculated by reference to notional or actual debt service [and repayment] costs for the premises;
       - allowing the landlord a further profit rental or conversely a subsidy for the tenant;
       - adjustments made to reflect whether landlord or tenant takes responsibility for major repairs and renewals and insurance;

3.4 Apportionments
   Defines how income and outgoings are attributed when they cover both the premises and other premises, and when they cover a period partly in, and partly outside the lease duration. May also provide for the tenant to recover historic arrears.

3.5 Late Payments
   Late payments bear interest at a pre-agreed rate.

4. Tenant’s duties
   The tenant will:
   4.1 Manage the Premises in accordance with agreed performance standards and good practice.
   4.2 Comply with nomination arrangements.
   4.3 Perform landlord’s obligations under tenancy agreements and use reasonable endeavours to procure that the tenants of the properties perform their obligations.
   4.4 Use the premises in accordance with the landlord’s (charitable) objects.
   4.5 Comply with any grant conditions.
   4.6 Keep and make available financial records.
   4.7 Deal with anti-social behaviour and neighbour disputes.
   4.8 Collect and maintain tenants’ records.
   4.9 Carry out and supervise (repair and) maintenance of the premises in accordance with agreed performance standards and good practice/maintain and retain full records of maintenance, repairs, alterations [scope not to repair /reinstate for good estate management reasons, such as redevelopment or disposal].
   4.10 Deal with statutory notices.
   4.11 Maintain insurance:
       - public liability;
       - employer’s liability;
       - [buildings].
   4.12 Maintain complaints handling procedures.
   4.13 Assist with monitoring and reporting.
5. Assignment by the tenant
The manager is not entitled to assign the benefit of the lease [or, if restriction is to be qualified]:
5.1 Without the prior written authority of the landlord; and
5.2 Except to another housing association; and
5.3 Without consulting the residents.

6. Alterations
6.1 No (structural) alterations without landlord’s consent.
6.2 Tenant will comply with legislation and good practice in any permitted alterations.

7. Landlord’s obligations
7.1 [Hold sinking fund and carry out major repairs and renewals at its own expense if exceed sinking fund] [scope not to repair/reinstate for good estate management reasons, such as redevelopment or disposal].
7.2 Enforce its defects rights with any third party (such as building contractors consultants and any service providers).
7.3 Assist with monitoring and reporting.
7.4 [procure buildings insurance]

8. Warranties
To avoid the need for the tenant to survey the premises and investigate the landlord’s legal title, the landlord retains defects risk by warranting (save as already disclosed):
8.1 Ownership of the premises and the income deriving from them.
8.2 No legal restriction or obligation preventing the current use.
8.3 Compliance with environmental laws and contaminative materials present.
8.4 Tenancy agreements are in forms previously disclosed.
8.5 No material disputes.
8.6 Full disclosure of material information known to the landlord has been made.
8.7 Nomination arrangements.
8.8 Staff who may transfer under TUPE.

9. Early termination
9.1 Provisions for landlord to terminate early on serious breach by tenant or tenant’s insolvency.
9.2 Mechanism for orderly handover on termination, condition of premises, apportionments, tenants’ records etc.

10. Disputes
10.1 First stage — meeting between officers.
10.2 Second stage — mediation (by agreement).
10.3 Third stage — legal proceedings.

11. Employees
11.1 Acknowledgement that TUPE may apply.
11.2 Provisions for information sharing.
11.3 Agreed restrictions on altering employment conditions etc.
11.4 Mutual indemnities.

12. Value Added Tax
Any payments under the lease are VAT exclusive.

13. Renewal
Any agreed terms on renewal and contracting out of the security of tenure provisions in Landlord and Tenant Act 1954.

14. Confidentiality
Both parties will use all reasonable endeavours to keep information concerning the other confidential.

15. Mutual indemnities
Provisions governing claims and losses attributable to either party’s breach of the lease terms.
Appendix 3

Project plan for a stock rationalisation programme

<table>
<thead>
<tr>
<th>ID</th>
<th>Task Name</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Disposals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Stock Condition Survey</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Review of AMS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Recruit Disposals Team</td>
<td></td>
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</tr>
<tr>
<td>5</td>
<td>Integrate Disposals Team</td>
<td></td>
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</tr>
<tr>
<td>6</td>
<td>Refine Transfers &amp; Disposal Programme</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Review EUV-SH</td>
<td></td>
<td></td>
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<tr>
<td>8</td>
<td>Pilot Marketing to Confirm EUV-SH</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Complete Lease</td>
<td></td>
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</tr>
<tr>
<td>10</td>
<td>Tender for Valuation Services</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>11</td>
<td>Appoint Consultants</td>
<td></td>
<td></td>
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<tr>
<td>12</td>
<td>Identify Lots for Marketing</td>
<td></td>
<td></td>
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<tr>
<td>13</td>
<td>Pre-marketing to RSLs</td>
<td></td>
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<tr>
<td>14</td>
<td>Review Expressions of Interest</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>15</td>
<td>Assemble Sellers Pack Information</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>16</td>
<td>Options Appraisals on S&amp;S</td>
<td></td>
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<tr>
<td>17</td>
<td>Bidders Consider Tender Pack</td>
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</tr>
<tr>
<td>18</td>
<td>Review Tenders and Commence Negotiations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Preparation for Immediate Transfer</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>20</td>
<td>Obtain Approvals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Implement Immediate Transfers</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>22</td>
<td>Negotiation of Leases for Long-term Transfers</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>23</td>
<td>Implement Leases</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>24</td>
<td>Consultation</td>
<td></td>
<td></td>
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<tr>
<td>25</td>
<td>Prepare Consultation Material</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>Stakeholder Consultation</td>
<td></td>
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<tr>
<td>27</td>
<td>Staff Consultation</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>28</td>
<td>Tenant Consultation (general)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>29</td>
<td>Second Stage Consultation re Transfer</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>Second Stakeholder Consultation</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Asset management strategy</strong></td>
<td>A statement of an association’s approach and plans for new investment, re-investment and disinvestment in its housing stock, including an approach to stock rationalisation.</td>
</tr>
<tr>
<td><strong>Business plan</strong></td>
<td>A statement of an organisation’s corporate objectives, usually supplemented by a long-term financial forecast showing how an association is going to deliver those objectives.</td>
</tr>
<tr>
<td><strong>Discounted payback period</strong></td>
<td>Length of time required for the discounted cashflows to cover the cost of an investment.</td>
</tr>
<tr>
<td><strong>Disposal</strong></td>
<td>The sale of vacant stock on the open market.</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>Earnings Before Interest Depreciation and Amortisation — the operating surplus.</td>
</tr>
<tr>
<td><strong>EBITDA cover</strong></td>
<td>Operating surplus plus interest receivable plus total depreciation divided by total interest payable.</td>
</tr>
<tr>
<td><strong>EUV-SH</strong></td>
<td>Existing Use Value for Social Housing — in summary, the valuation for a property let for social housing use which would be re-let as social housing on becoming vacant and if disposed of, would continue to be subject to a social housing tenancy (full definition available from the RICS).</td>
</tr>
<tr>
<td><strong>Market Value</strong></td>
<td>The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.</td>
</tr>
<tr>
<td><strong>Net Present Value (NPV)</strong></td>
<td>The discounted value of all cash inflows (returns) and outflows associated with an investment.</td>
</tr>
<tr>
<td><strong>Payback period</strong></td>
<td>Length of time required to cover the cost of an investment.</td>
</tr>
<tr>
<td><strong>Tenanted Market Value</strong></td>
<td>As MV and additionally, that the property would be subject to any secure or assured tenancies that may prevail, together with any other conditions or restrictions to which the property may be subject.</td>
</tr>
<tr>
<td><strong>Transfer</strong></td>
<td>The transfer of stock through sale/purchase or swaps between housing associations. Stock being transferred will be tenanted, except for management voids.</td>
</tr>
<tr>
<td><strong>Transferor</strong></td>
<td>The housing association transferring stock to another housing association.</td>
</tr>
<tr>
<td><strong>Transferee</strong></td>
<td>The housing association receiving stock from another housing association.</td>
</tr>
</tbody>
</table>